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Paraphrase of Code Cablegram
Received at the War Department
at 2:10 P.M., September 1, 1940

~~CONFIDENTIAL~~

London, filed 18:45, Sept. 1, 1940.

About 600 German airplanes, about half of which were bombers, carried out daylight raids over England during August 31st. A large force made a strong attack on Southampton, then separated and attacked nine airfields. Strong fighter patrols over the Channel covered the withdrawal of this force. All airdromes are still in service, but there were serious damages to the buildings of three fields and ten fighter aircraft were destroyed.

During the past 24 hours Willesden, Salisbury and Liverpool were also bombed. One small factory manufacturing small aircrafts parts was destroyed and there was considerable damage to non-military objectives.

During the night of August 30-31 about 300 enemy aircraft were abroad, with the Midlands area the general objective. Bombs of various types were reported dropped in 246 localities in England during the 24 hours ending at 6:00 A.M. today.

During the same period 85 German airplanes were confirmed as destroyed (of which 15 were by antiaircraft fire), 34 were probably lost and 33 were damaged. The British lost 37 aircraft and 12 pilots. British ground casualties were 40 Royal Air Force personnel killed and 28 injured; and 44 civilians killed and 250 injured.

During the morning of August 31st Eastbourne was shelled from an unknown source with slight damage.

The Royal Air Force continued its bombing of military

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

objectives. During the night of August 30-31 bombers over Berlin attacked the gas works, the Henschel aircraft factory, the Siemens factory, the Templehof airdrome, oil tanks, and neighboring airdromes. The British are satisfied that great destruction resulted. In these and other simultaneous attacks the British lost two bombers in action, while four crashed on the return trip, two crews of which were not lost.

Five British ships, totalling 19,000 tons, were sunk.

The newly adopted German aerial tactics of widely scattered bombing have undoubtedly caused more damage in this country as a whole; while the ratio of German to British aircraft losses is decreasing. The Air Ministry estimates that the average maximum German daily air effort of 400 planes for July has increased to 500 for the immediate future, with the ability to put 800 planes in the air each day for a short period. Due to the interruption of communications in the Low Countries and in France, the German Air Force is now operating a considerable portion of their long range bombers from airfields in Germany.

LEE

Distribution:
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Signature RHPk

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RWR

GRAY

BERLIN

Dated Sept. 2. 1940

Rec'd 4 p.m.

Secretary of State,

Washington.

3849, Sept. 2, 2 p.m.

FOR TREASURY FROM HEATH AND FOR DEPARTMENTS INFORMATION.

The Berlin morning press gives prominence to the speech yesterday of Reich Economics Minister Funk at the opening of the Vienna Fair. Funk made the customary assertions of the strength of the German Wartime economy and the ineffectiveness of the English blockade insisting that large imports from the North, East and South compensate "to a substantial extent" for lost imports from overseas. Funk declared that foreign trade figures for recent months were not much lower than the monthly average of 1938 and that recently export results have exceeded expectations. Although Germany's exports have recently shown a greater increase than its imports this development has not yet been reflected in its clearing balances due to the fact that credit terms on Germany's exports are much longer than on its imports. Germany's

trade

trade policy, he asserted, was aimed at abolition of the senseless autarchic policy of individual European countries and its replacement by a sound division of labor among the various countries.

Funk said that the British had had even more disdain for the German currency than for any other feature of the German economy but the Reichsmark had become the most select and secure currency and was well on the way to assuming the position of the ailing British pound. The recent prohibition of imports of pound notes into England which quarantines the pound note as an international currency resulted in another severe loss of prestige for the English. If this token of the British reputation was dealt in on the black markets, for example, in Asia at a fraction of its nominal value then the English monetary authorities could hardly have served Germany better than by this measure. German monetary policy, Funk asserted, had completely fulfilled its tasks. It was to its advantage that the monopolized policy which had been practiced during peacetime was a satisfactory basis for war conditions and had only to be extended.

Funk forecast an improvement of the clearing methods "which are much in need of reform" emphasizing

the

the need of simplification of the often very complicated clearing technique shortening or at least completely eliminating waiting periods by means of credits from central banks, stablization of the rates of exchange and the creation of multilateral clearing possibilities.

KIRK

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy, France

DATE: September 2, 1940, noon

NO.: 473

UNCLASSIFIED
J.F.C. MAR 20 '59
per date

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

The new Governor of the Bank of France, replacing Fournier, is Yvesmarie Breart de Boisanger. Reference: telegram of July 19, 9 p.m., No. 111 from the Embassy, the first paragraph. A change in governors was not unexpected. Probably Governor Fournier was not willing to adapt himself to the hard fact of the Germans supervising the operations of the Bank of France; there were also indications that the relations between Bouthillier, the Finance Minister, and Fournier were not of the best. Furthermore, it is my understanding that intimations that they "cannot work with Fournier" have been given by the Germans. It is presumed that the Germans will have a more amenable man in Boisanger - you will remember that Boisanger was sent to Wiesbaden soon after surrender to establish personal contact with the Germans.

The place of Boisanger, as first Under-Governor, has been filled by Rene Villard, who was Under-Governor of the Credit Foncier.

MATTHEWS.

EA:LWW

COPY



BANK FOR INTERNATIONAL SETTLEMENTS
BASLE

THE PRESIDENT

Temporary address:
Chateau d'Oex, September 2, 1940.

H. Merle Cochran, Esq.,
State Department,
Washington, D. C.

Dear Cochran,

Enclosed is copy of a letter which I have addressed to the central bank Governors who sit on the Board of the B. I. S. You will see that it deals with one of those questions of banking which is perhaps more important politically than financially. When the instructions mentioned were received from the Baltic states common sense indicated clearly the course of action which was taken and you can imagine how pleased I was to learn subsequently that in this case the law with its technicalities upheld the conclusion we had reached.

I leave it entirely to your judgment to decide to whom the information herewith should be communicated in Washington. My one serious concern is that it should not get into the press. After the damaging campaign of publicity regarding the Czech gold it is of the greatest importance to the B. I. S. to remain in the background at this time.

You have probably heard that we are going back to Basle about October 1, first because the reasons which prompted our departure have disappeared and secondly because the winter here in the mountains would be difficult from the point of view of accomodation for the staff and amenities generally.

Our facilities for gathering news are not what they were when you were still in Europe. From what little we do know it seems clear that the countries which have suffered defeat are being systematically despoiled of supplies of all sorts. The Swedish newspapers announced a decree in Norway that the leaves of trees should be collected for the purpose of feeding life-stock next winter. Denmark after capitulating became in a few weeks creditor to the extend of some 100 million Danish crowns in the German-Danish clearing. The economic section has recently completed a study of the European wheat situation which confirms the general expectation of a serious shortage next winter and it shows further that some countries, particularly France and Belgium, will probably suffer far more than others.

We are having a rather difficult time with the license system imposed on us by the Treasury and have not been able to gather what really lies behind this move. I want to cooperate fully and have dealt with our dollar accounts as if the B. I. S. were an American bank.

Yours sincerely,

(Signed) T. H. McKittrick.

Encls.

lap

COPY

BANK FOR INTERNATIONAL SETTLEMENTS, BASLE
(temporarily at Chateau d'Oex)

28th August 1940.

Dear Mr. . . . . .

I am writing to inform the governors of central banks who sit on the Board of the Bank for International Settlements of the occurrences recounted below.

On July 13th and 15th the B.I.S. received from the central banks of Lithuania, Latvia and Estonia almost identical telegraphic instructions to place the gold which the B.I.S. held for them - except for small balances on postal clearing account for Lithuania and Estonia - at the disposal of the State Bank of the U. S. S. R. In two cases it was stated expressly that the gold in question had been sold to the latter bank, whereas this information, mission in the first wire from Lietuvos Bankas, was given in a second telegram.

The political and military events occurring at that time in the three Baltic States, coupled with the simultaneous arrival of the instructions, the identity of the transferee and the fact that the transactions allegedly underlying the requested transfers were also identical and, contrary to banking practice, expressly stated, could only arouse misgivings in the minds of the managers of the B.I.S. regarding the necessity or advisability of carrying out the instructions received. Under the circumstances, it was thought best to obtain independent legal advice on the subject and Professor Schindler of Zurich, a well-known authority on international law, who had once before advised the B.I.S., was requested to give an opinion. I now enclose a copy of Professor Schindler's excellent statement as well as a short summary of it in English. You will note that it advises definitely against giving effect to the instructions received and states that in doing so the Bank would fail in its duty to observe the principle underlying Article 10 of the Constituent Charter. The Swiss Courts would not, in Professor Schindler's view, compel execution of the transfer requested.

The Lithuanian, Estonian and Latvian Legations in Switzerland have, since the Russion occupation of their countries, sent to the B.I.S. formal protests against paying away any balances or gold standing in the names of their respective central banks.

The three Baltic central banks as well as the State Bank of U.S.S.R. have been advised that the B.I.S. cannot for the time being part with the assets it holds for any of the former and I trust, Mr . . ., that you will agree that is the best and wisest course under existing circumstances.

Yours faithfully,

(Sgd.) T. H. McKittrick
President.

2 encl.

lap

Summary of Professor Schindler's opinion dated

19th August 1940

---

Professor Schindler reviews the facts as recorded in newspaper cuttings and comes to the conclusion that the course of action taken by Russia prior to the 13th July was directed toward the ultimate union of the three Baltic States with the U.S.S.R. From the middle of June on neither the Governments nor the Central Banks of these States were any longer free agents. The instructions to deliver to the Russian State Bank the gold deposited with the B.I.S. were given at the very last moment when it was still possible to allege normal transactions between these Banks and the Russian State Bank. These instructions were apparently not the result of free volition on the part of the three Banks but were probably due to the volition of organs of the Soviet Russian Government or of the political party dominating it.

Professor Schindler then cites Article 10 and states that coercive measures against depositors fall as much under this provision as direct action against deposits. Article 10, of course, binds only Governments which are parties thereto but it also forms an integral part of the charter of the B.I.S. As such it imposes on those responsible for the management of the B.I.S. the duty to resist, as far as lies in their power, any Government interference with the assets of the B.I.S. and with the funds entrusted to it.

Article 10, however, cannot be invoked as against State succession. If a State loses its identity, whether through peaceful means or through violence, Article 10 cannot be relied upon in order to resist the effect of such merging of one state in another.

In order, however, to produce effect abroad, State succession must be final and recognised by third Governments. As long as general recognition of the union of the three Baltic States with Russia has not taken place, the wisest course for the B.I.S. is to keep the matter in abeyance and take only such measures as tend to preserve the assets in question. Some of the European and American States have clearly indicated that they do not regard the incorporation of the three Baltic States in the U.S.S.R. as lawful or final. The diplomatic representatives of all three states have expressly protested against the recognition of the new Governments. There are even indications that Russia itself is not contending that the property of the former Baltic States, their bank deposits and their gold, have ipso facto devolved upon it. The B.I.S. should, therefore, regard the union of the Baltic States with Russia as part and parcel of the great process of transformation which Europe is undergoing, a process which will continue until a new order has finally been established by peace treaties. This being so for the B.I.S. to carry out the instructions given it would expose the Bank to later claims by the true owners.

The Swiss Courts would, in the opinion of Professor Schindler, protect the B.I.S. against a claim by the Russian Government as the successor in law of the three Central Banks. It is even doubtful whether the Swiss Courts could in any way entertain an action brought by the Russian Government. As to the merits of the case, Professor Schindler thinks that the claim would be regarded as contrary to public policy and abhorrent to Swiss notions of justice and equity, and would therefore be dismissed.

COPY

imc

Paraphrase of Code Radiogram
Received at the War Department
at 10:41 A.M., September 2, 1940

Chungking, Filed September 2, 1940.

I think it probable that the Japanese will, in the event of French capitulation to their demands, begin an advance from Nanning through Caobang on Kunning. While the route specified will be considerably more difficult, due to the mountainous terrain and absence of local supplies, than an advance up the Yunnan Railroad, it is my opinion that the latter route will be adopted only in the event that Lung Yun* deserts Chiang Kai Shek, which appears improbable. The Caobang advance will probably not be begun until about October 1 at which time the seasonal rains should be over.

MAYER

* Note by G-2: Lung Yun is the governor of Yunnan Province. His loyalty to Chiang Kai Shek has at times been under suspicion.

Distribution:

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Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

Paraphrase of Code Radiogram Received at the
War Department 1:55 a.m., Sept. 2, 1940

Mexico City, Filed 15:00, Sept. 3, 1940

Richard Nathan Corporation New York and Mitsui of Japan active in efforts to purchase 200,000 tons scrap iron all grades which Government of Mexico is preparing to sell. If Nathan Corporation succeeds it will probably deal with Japan. Germany may be the destination of all or part of this scrap metal.

McCOY

Copies to: State Dept.
Secretary of Treasury
Asst. Secretary of War
ONI

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Paraphrase of Code Cablegram
Received at the War Department
at 10:41 A.M., September 2, 1940

London, filed 09:53, September 2, 1940.

Both night and day German air activity was on a reduced scale during September 1st. German aircraft casualties were 25 destroyed, 10 probably destroyed, and 20 damaged. The Royal Air Force lost 15 planes and six pilots. Enemy air attacks on airfields rendered one unservicable. In addition German bombing sunk one British destroyer and damaged two in the North sea, and slightly damaged one battleship under construction. One light cruiser was slightly damaged by a mine. All passengers on board the ship mentioned in my cablegram of August 31st (carrying child refugees—G-2) have been saved.

During the last 48 hours civilian lives have been lost and property damaged by bombing in a number of places, including Bristol, Avonmouth, Tilbury, Gravesend, Bradford, Maidstone and Whitstable. An oil storage plant at Llandarcey (?), a hospital at Orpingham, and a guard depot at Caterham were also damaged. Civilian casualties during the 24 hours ending at 6:00 AM today were 110 killed and 580 injured.

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Based upon reliable information, it is believed that the shelling of Eastbourne previously reported was from guns of about 5-inch caliber on German submarines. This shelling and the extent of civilian and military casualties have been strictly censored.

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JT

GRAY

CALCUTTA

Dated September 3, 1940

Rec'd 6:07 p.m.

Secretary of State,

Washington.

September 3, 4 p.m.

FOR THE SECRETARY OF THE TREASURY FROM BOMBAY:

French bank shipped to Chase National Bank, New York by the steamship PRESIDENT ADAMS sailed on August 16th 11,974 ounces of gold valued at rupees 1,331,358 and by the steamship PRESIDENT VAN BUREN sailed on August 22nd, 14,563 ounces valued at rupees 1,622,994.

National Bank shipped to Chase National Bank, New York by the steamship PRESIDENT VAN BUREN 7,875 ounces valued at $265,860.

GROTH

NPL

Declassified
FDRL
3-6-70

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO No.

HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

For Miss Chauncey

3 September. 1940.

~~SECRET~~

From: Spagent, Shanghai, China.
To : The Secretary of the Treasury.

Message from Mr. Nicholson.

In spite of denials, the Japanese consul general in Hongkong is quietly advising wives and children of Japanese nationals residing therein to leave as soon as possible. Consequently they are evacuating in small lots, ninety having left the colony in the past two days. There is no apparent reason for the move except that the consul general fears that the Chinese are about to start trouble on the Indo-China border. Just what this has to do with Japanese women and children in Hongkong, the consul general did not explain. However, an interesting side light is the belief in local Japanese military circles that the collapse of Great Britain is imminent and that signal will soon be given for the grab of Indo-China, Dutch East Indies, Singapore and all points south. No doubt this is part of a war of nerves being carried on by German advisers in Tokyo, of which there are many, against the British and their colonies in the Far East. However, the Hongkong Chinese, especially the heads and staffs of the four government banks, are very nervous. A two thousand ton Philippine vessel now in Hongkong has been chartered by Bank of China officials and is now being held in readiness for evacuation. Some seventy odd have obtained Manila visas

RECEIVED
TREASURY DEPARTMENT
1940 SEP 4 AM 11 02

~~SECRET~~

Travelers from Kunming state that the British are keeping their Burma agreement in strict accordance with their promise to the Japanese, but the problem of moving supplies is still being studied.

On September first Admiral De Cous, ranking French naval authority in French Indo-China received instructions from the Vichy government to negotiate with the Japanese in order to bring about closer cooperation in oder to facilitate the transit through Indo-China of arms, soldiers, supplies, etc. On Monday a conference of all French Indo-China councils decided not to obey this order. The next move is up to the Japanese and a blockade of Hongkong and Indo-China shutting off route to Singapore and Dutch East Indies to all ocean traffic is expected daily.

SECRET

(Handed by Mr. Stopford of the British Embassy to Mr. Cochran in the Treasury at 3:30 p.m., September 3, 1940.)

C P Y

" On August 29th Reich Bank communicated with Irving Trust, Schroeder, Chase, New York Trust, Brown Brothers, Harriman, Bankers Trust, Central Hanover, National City, Guaranty Trust and Manufacturers Trust countermanding their communication of January 12th, 1940, and instructing them not to pay money received for their credit and proceeds of their collections any longer to Federal Reserve Bank, New York, for credit of B. I. S. Instead such moneys are to be credited to their own account as formerly."

(Initialed) R. J. S.

- - - - -

September 3rd, 1940.

dm

G-2/2657-220 RESTRICTED

No. 184 SITUATION REPORT

M.I.D., W.D.
September 3, 1940.
12:00 M.

---

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

---

I. Western Theater of War.

1. No ground operations.

2. Air Force Operations.

There was no change in the pattern of German operations in the period August 31-September 2. Intensity of daylight operations was high on the 31st, relatively low on the 1st, and somewhat higher on the 2nd. Bombing attacks with strong pursuit protection were primarily directed against airdromes and encountered strong opposition. Night attacks uniformly involved about 300 bombers, employed in detail against widely scattered objectives--ports, munitions and aircraft plants and oil storage and airdromes. While no consistent figures on losses are available, it is apparent that the proportions of British to German losses in the air has risen somewhat. Heavy fighting is continuing today.

The British sent approximately 100 bombers nightly over Germany. Points attacked included airdromes, oil storage, aircraft and munitions factories and docks. Raids were made in the following vicinities among others: Berlin, Cologne, Magdeburg, Hamm, Osnabruck, Munich, Stuttgart, Hanover and Emden.

II. Mediterranean and African Theaters of War.

1. The Italians announce the capture of Buna, Kenya, a continuation of their advance into Dolo.

2. The Italian Air Force delivered an apparently strong attack on British fleet units in the Mediterranean. Elsewhere in the theaters only widely scattered minor air raids occurred.

# TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 3, 1940

TO Secretary Morgenthau

FROM Mr. Haas

Work Projects Administration employment, contrary to the trend during the month of July, declined for the second successive week. During the week ended August 21, 1940 1,699,000 persons were employed, compared with 1,708,000 persons for the previous week.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

| Week ending 1940 | Number of Workers (In thousands) |
|---|---|
| February 7 | 2,288 |
| February 14 | 2,306 |
| February 21 | 2,319 |
| February 28 | 2,324 |
| March 6 | 2,324 |
| March 13 | 2,319 |
| March 20 | 2,312 |
| March 27 | 2,288 |
| April 3 | 2,204 |
| April 10 | 2,162 |
| April 17 | 2,118 |
| April 24 | 2,092 |
| May 1 | 2,059 |
| May 8 | 2,008 |
| May 15 | 1,970 |
| May 22 | 1,945 |
| May 29 | 1,925 |
| June 5 | 1,859 |
| June 12 | 1,785 |
| June 19 | 1,714 |
| June 26 | 1,666 |
| July 3 | 1,611 |
| July 10 | 1,619 |
| July 17 | 1,659 |
| July 24 | 1,689 |
| July 31 | 1,700 |
| August 7 | 1,709 |
| August 14 | 1,708 |
| August 21 | 1,699 |

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

| | Number of Workers (In thousands) |
|---|---|
| 1938 | |
| January | 1,901 |
| February | 2,075 |
| March | 2,445 |
| April | 2,582 |
| May | 2,678 |
| June | 2,807 |
| July | 3,053 |
| August | 3,171 |
| September | 3,228 |
| October | 3,346 |
| November | 3,287 |
| December | 3,094 |
| 1939 | |
| January | 2,986 |
| February | 3,043 |
| March | 2,980 |
| April | 2,751 |
| May | 2,600 |
| June | 2,551 |
| July | 2,200 |
| August | 1,842 |
| September | 1,790 |
| October | 1,902 |
| November | 2,024 |
| December | 2,152 |
| 1940 | |
| January | 2,266 |
| February | 2,324 |
| March | 2,288 |
| April | 2,092 |
| May | 1,925 |
| June | 1,666 |
| July | 1,700 |

Source: Work Projects Administration.

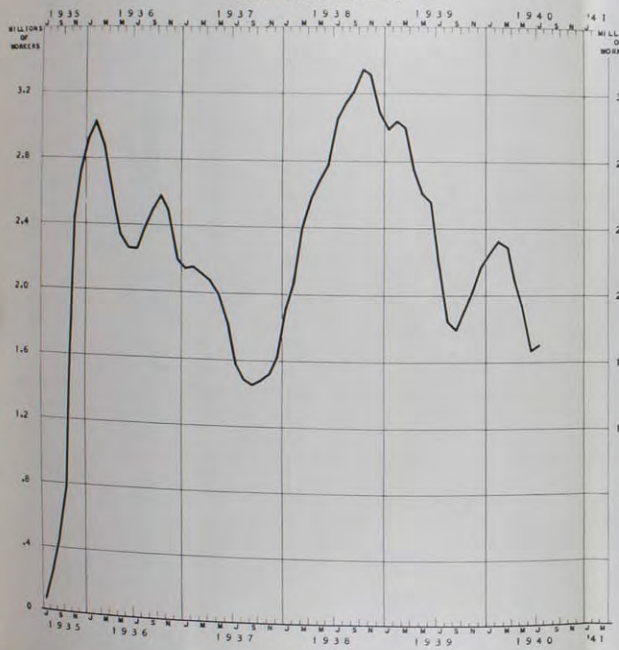
Monthly figures are weekly figures for the latest week of the month.

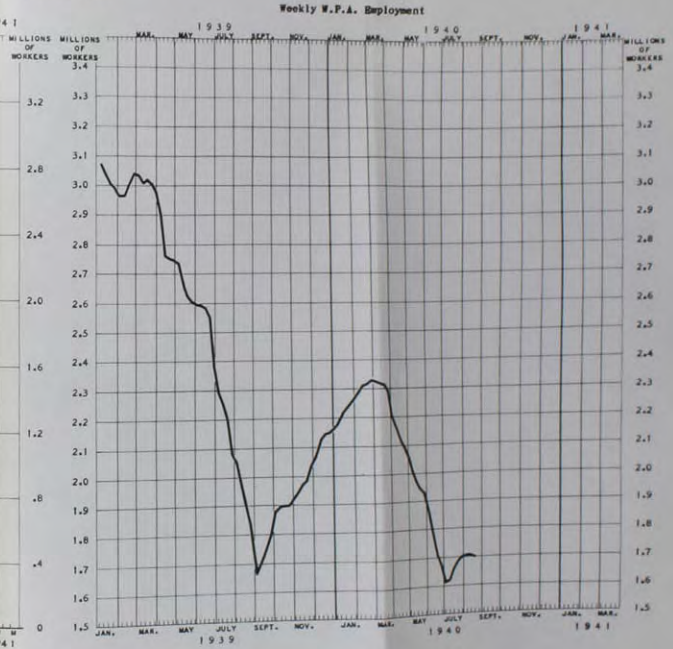
They include certified and noncertified workers.

# WORK PROJECTS ADMINISTRATION

Number of Workers Employed

United States




Office of the Secretary of the Treasury
Division of Research and Statistics

SOURCE: WORK PROJECTS ADMINISTRATION

Z - 221 - B2

GROUP MEETING

September 3, 1940
9:30 a.m.

Present: Mr. Haas
Mr. Bell
Mr. Thompson
Mr. Gaston
Mr. Young
Mr. Cochran
Mr. Schwarz
Mr. Graves
Mr. Sullivan
Mr. Chamberlain
Mr. White
Mr. Cairns
Mrs Klotz

Gaston: I haven't anything special. There are a couple of political cases hanging fire.

H.M.Jr: Well, is there any hurry?

Gaston: No, no hurry.

H.M.Jr: Will it take care of itself if I don't do anything?

Gaston: Well, the President, I think, expected you to speak to him at the first opportunity about the Ohio case, the Collector of Internal Revenue at Toledo, but I think all he is going to say is to do nothing about it at present.

H.M.Jr: I have a tentative date with him Thursday.

Gaston: That will be soon enough.

H.M.Jr: Huntington?

Cairns: Not a thing. All quiet.

Sullivan: Not much, nobody here but us chickens, boss. They go on the roost at 10:00 o'clock.

H.M.Jr: Well, do you want to stay behind and tell me what you are going to do?

Sullivan: Yes, sir.

H.M.Jr: I think you had better. At the rate we are going, we will be through in a few minutes.

Cochran: I have nothing.

H.M.Jr: Nothing?

Cochran: No, sir.

Young: Not at the moment.

H.M.Jr: Well, I have got plenty for you. Mr. Purvis is all excited about a tank program.

Young: I can't get very excited about that yet.

H.M.Jr: As near as I can make out, nothing has happened. He hasn't got his form in and he hasn't got the whole thing. He has been with the people over the week-end. He tells me that the Swedish plane thing, they haven't got the planes.

Young: That is right.

H.M.Jr: And they are very much upset over all of this stuff. They don't get anything.

Young: The tank program has been going very fast.

H.M.Jr: It has gone nowhere.

Young: Oh yes, it has gone a long way.

H.M.Jr: No, I mean they can't - the English can't do business on that basis.

Young: Yes, that is correct, on this last - rather the first tentative procedure.

H.M.Jr: Which tank program are you talking about?

Young: I am talking about the same one you are.

H.M.Jr: Which one is that? I don't know.

Young: On the engines.

H.M.Jr: You see, I don't know. I don't know what size tank or anything. What size tank is it?

Young: It is the medium 25-ton tank.

H.M.Jr: And how many do they want or how many does the Army want? I have no knowledge of that. It seems to me from what Mr. Purvis told me Friday night, and what Morris Wilson tells me, that on all of this stuff they are in a terrible jam. Are any of the English people in town?

Young: I don't know, sir. I think Mr. Purvis will be in this morning, if he isn't here now.

Bell: Buckley said he would have Purvis here this morning in case you wanted to see him.

H.M.Jr: One of the things, Dan, I would like you to do through the Bureau of the Budget and the RFC - I would like to have you do it, if you could. Are you very busy today?

Bell: No.

H.M.Jr: I can't make out how many different plans there are of financing. First, U. S. Government. I mean, I would like to have for the President - let's take the Navy. I mean, how many different formulas are they using to let a contract and furnish the manufacturer with the money? I read in the paper - I mean, I am constantly accused - I read in the paper that the Navy has got from Pratt & Whitney 17,000 engines

and they have financed it one way. I read in the paper that the Army has bought 20,000 engines from Curtiss Wright and they do it another way. They buy a tank in another way. I read that the RFC has financed 160 million dollars, more or less, of Government contracts. I don't see any evidence of it.

Bell: As far as the RFC is concerned, it is just commitments. No money has gone out and probably won't go out for some time, as far as I can see.

H.M.Jr: Well, would you take it up with the RFC and with the Army and with the Navy and with the Bureau of the Budget, how much of this 200 million dollars are they using? Is it 200 million? I want it for the President to use, you see.

Bell: It is 100 million.

H.M.Jr: Well, and maybe there is some more in this bill. I am just as confused as everybody else and I am sure the President must be, too, and certainly anybody that reads the newspapers is. How many different ways are the Army and Navy buying and financing for plant expansion and for purchase of tools, and so forth and so on. Now, can you (Sullivan) help him any on that? You are out of this, aren't you?

Sullivan: I don't think I have any information that would be helpful to him.

H.M.Jr: Has your shop got any information, Huntington?

Cairns: We may have some. I will inquire.

Bell: Oscar Cox may have some.

Cairns: And Kades.

H.M.Jr: Have you got anything?

Young: Nothing except what I have collected from Cox and other people around here.

H.M.Jr: Would you have anything that Cox doesn't have?

Young: I don't believe so.

H.M.Jr: Well, will you look it up? Is it clear in your mind, the various methods?

Young: I don't think it is clear in anybody's mind.

Bell: They come out with a new one every day. Jesse Jones asked several pertinent questions at the last Cabinet meeting and he thought the Government could do it cheaper by doing it directly rather than a round-about method.

H.M.Jr: Who said that?

Bell: Jesse Jones told Knox. It would probably cost the Government at least two percent on that basis, where they could do it at one percent on direct financing.

H.M.Jr: Normally, in normal times, the Bureau of the Budget would be in on this. I am sure they are not.

Bell: I don't think so.

H.M.Jr: Well, let's pull them in on it and let's go directly to the Army and Navy, because they have got to sign these contracts, haven't they?

Bell: Yes, they have to sign them.

H.M.Jr: I would like, if I could, to have something and then, you see, out of that I spoke to Mr. Patterson this morning and asked him if he got Foley's memorandum where the case of

the Government - as I understand it, it financed Chrysler to build tanks. The Government did it itself, not RFC. But the Englishmen come along and buy some of those tanks. Foley wrote this memorandum which I asked you to send over. Patterson said he read it. He said, "There is no doubt in my mind but what Foley is right." Well, if it could be done that way and the Government could do all the work and then after the thing was written, they could come along and say, "Well, the English want so many more," it would make things very, very much easier for the English Purchasing Mission.

Bell: That was done directly out of an appropriation, I think, for Chrysler.

H.M.Jr: Well, there is the Foley letter which was sent over to Judge Patterson, which you can get hold of. But the way it is now, at the rate they are going - I mean, they have been fussing - how long has this tank program, this one - how long have they been fussing with it?

Young: The opening conferences were held the first week in August on standardization.

H.M.Jr: But on the financing?

Young: Oh, they didn't get down to brass tacks on that until last Wednesday, on the financing.

H.M.Jr: Well, is the Packard deal closed up yet?

Young: The contract had not been definitely signed at the end of last week, that is, Wednesday or Thursday. It may have been signed Friday or Saturday.

H.M.Jr: That is an Army contract, that Packard contract?

Young: No, I think it is one with the British, too.

H.M.Jr: But would the Army know about that?

Bell: RFC was in on that, too.

Young: Yes, the RFC was.

H.M.Jr: Well, it is a big job, Dan, but if you could pull it all together. Don't you think we ought to use the Budget?

Bell: Yes, I do. They could give us a lot of help on that.

H.M.Jr: It is perfectly crazy and everybody is slowed down and is just treading on everybody else's toes and they are not getting any production and I don't think - if we get all these various methods, you will see that the tax thing is very, very unimportant because there is no central brain who is directing the thing, whose responsibility it is to say, "This is the way we will finance it. Now, come on, gentlemen, this is the way we will do it." If there was a central brain who was doing the thing, the tax thing, I think, would fall very much by the wayside, and it is one of these things I am doing. To show how perfectly crazy this thing is, if you are a manufacturer, they give you about six or seven different methods of financing. There ought to be one.

Sullivan: I think part of the trouble is they are not giving it to you. They are just suggesting it.

H.M.Jr: Who?

Sullivan: Defense Commission.

H.M.Jr: That is why I want Bell to take that, with the authority of his office, to go after that thing, and then if the Army will take the

position where they have closed a contract with money appropriated by Congress and the English can come along and get some of that, it would make life very much sweeter, wouldn't it, Phil? I mean, it would make life very much easier.

Young: Oh yes, sir, very much so.

H.M.Jr: Well, if you are not too busy, Dan, if you would get it, because I really - I mean, take it - if the Republicans were really on their toes, which, fortunately for us, they are not - I mean a thing like this, this is the crux of it, I think. It is a big job I am handing you.

Bell: We will see what we can do.

H.M.Jr: Okay.

Do you (Young) want to step out and find out whether Mr. Purvis is here in town, because if he is - let me just find out if Stettinius is coming.

(Discussion off the record)

Well, Phil, I can see you and Buckley, in any case, at 10:30 and if Purvis is in town, also at 10:30. Do you want to find out now?

Young: Yes, sir.

H.M.Jr: Please.

Chick?

Schwarz: I have a request here relayed through Mr. Gaston from Theodore Granik. Granik, who has now expanded that radio forum that he has to a

newspaper syndicate, and he is asking for an article under your name on the question, "Has the New Deal Policy Been a Good One?" and in which he would have some opposition statement by some Republican. We could, by revising your discussion of May before the ladies, supply that and by making it close to that, we could say that it was not a new special statement for any person.

H.M.Jr: Commercial, isn't it?

Schwarz: He sells it, yes.

H.M.Jr: No.

White: This has been his fourth or fifth attempt to have a discussion on gold and silver. We have been successful in having postponed it in each case and I think if it is possible here, there is nothing to be gained by a discussion --

Schwarz: He probably has it on his list and it is one of those things he wants.

White: I think it might be better to postpone it, if it is possible to do so.

Schwarz: It is possible.

H.M.Jr: I would kill it. What else?

Schwarz: That is all. You saw the Merry-Go-Round, of course, this morning?

H.M.Jr: Yes, and I have asked them to look up some of the facts on the thing and I am going to give it to Sullivan and he can talk to some of his people about it. Did you read it?

Sullivan: No, I didn't see it.

H.M.Jr: It is by Pearson and Allen. Take a look at it. When I get what I have on it - I wasn't here November 8. This memorandum he was supposed to have sent to the President on depreciation, as I remember it, you (Bell) were here at the time. I am looking it up.

Bell: November 8 last year?

H.M.Jr: Yes. I didn't read Pearson and Allen the whole time I was away and I got along beautifully. When I get it, I will turn it over to Sullivan.

Schwarz: I would like to straighten them out, just for the record.

H.M.Jr: Somebody has been talking to them. I don't know who has. I would like you to straighten them out, too, but I am not excited about it yet.

Phil?

Young: Mr. Purvis is due to arrive at 9:45. I will get in touch with him.

H.M.Jr: You and Buckley and I can start at 10:30 anyway. Anything else, Chick?

Schwarz: That is all.

H.M.Jr: George?

Haas: Have you got a minute to look at the Allison picture on the P-40 situation?

H.M.Jr: Well, I talked to Evans Friday.

Haas: Here is the picture here (handing chart to Secretary).

H.M.Jr: I will talk to you about it later. Come back in and see me at a quarter past 10:00.

Haas: All right.

H.M.Jr: And that - I wrote this out, George. I want from you, whatever way you have got it, beginning January '39, the number of people employed in the engine and the frame ends. You have got that, haven't you?

Haas: Yes, sir. I have a new report on my desk for you. I will bring that in.

H.M.Jr: Will you? I think if the President could use that, showing my guess - as I remember, there were about 10,000 people employed in the airplane industry in 1939. There must be close to 100,000 now.

Haas: Very near it.

H.M.Jr: The thing is tenfold. Anything else, George?

Haas: That is all. By the way, you will be interested in - while you were away, orders have picked up sharply from the reporting companies.

H.M.Jr: I did that up in Canada.

Haas: Did you?

Chamber'n: I have some matters that I would like to take up - I would like to have a chance to talk with you, possibly tomorrow, Mr. Secretary, on some matters I haven't got quite ready.

H.M.Jr: Anything that is "manana" always appeals to me.

Chamber'n: Well, it doesn't to me very much, but I don't want to take your time up unnecessarily.

H.M.Jr: 3:00, tomorrow afternoon?

Chamber'n: We have a meeting regularly, but if that is convenient to you, we can put it off.

H.M.Jr: Is it a Treasury meeting?

Chamber'n: No, just a meeting of our Committee.

H.M.Jr: Could they meet a little bit later?

Chamber'n: We will put it later, yes.

H.M.Jr: Who do you want there, Professor Chamberlain?

Chamber'n: Why, I think I would like to have Mr. Cochran and probably Mr. White and Mr. Bell. I wanted to talk about that French matter we discussed particularly. I think that needs attention.

H.M.Jr: Tomorrow afternoon.

Chamber'n: Tomorrow afternoon at 3:00.

H.M.Jr: Good.

Harry?

White: With reference to the remarks on Government financing, I learned something which may or may not bear on that matter. If it doesn't bear on that, it bears on something else the Treasury should be interested in. I understand that the Council of Defense is having a couple of experts prepare a report on Government financing. Now, I don't know whether the Government financing related to what you are talking about or whether it related to the larger problem of general Government financing, but in any case, I will learn more about it because I think they are coming around to see me.

Now, I was wondering whether if it relates to the larger problem of Government financing in view of the fact - as I understand it, this report is going to the Budget, to the President - whether Mr. Bell might canvass the desirability of the report, and if such a report is called for, then it ought to be prepared by the Treasury beforehand and passed through normal channels.

H.M.Jr: Supposing you find out more about it.

White: All right.

H.M.Jr: They have got a committee on taxation and finance over there.

That is the thing (handing clipping to Sullivan). If Stimson did that without our people knowing it, I think it is an outrageous performance. That is the thing I talked to you about.

White: Or it may apply --

H.M.Jr: Find out more about it. This is for you at a quarter of 3:00.

Sullivan: I have that in my file (returning clipping).

White: The report on inventories of the French assets has been completed and there may be a couple of figures you might want to stick in your mind. One is that the total is a billion and a half and half of it is - belongs to the Government. The answers to the questions which we put to Chile were received on Friday and we will have a report ready by tomorrow or the day after.

I wonder whether you want us to work with the Federal Reserve Board and the State Department

before you have a chance to make up your mind on it, then if it is all right with you, we will call a meeting --

H.M.Jr: Please.

White: ....with them.

H.M.Jr: The longer you can keep me out of it, the better.

White: All right.

The Executive Committee on Commercial Policy has been considering two things which you might want to just know about. One is that they are preparing a draft of a bill, giving the Government considerably extended powers with respect to quotas and trade arrangements so that they can undertake various forms of cartels through any countries they may see fit. That hasn't gone to Congress, but they have passed upon it.

Secondly, there is a question which is disturbing the Committee very much with respect to subsidies of manufactured cotton goods, which apparently the Department of Agriculture is eager to see put through and which the State Department is much opposed to. The State Department has sent a letter to you and to the Secretary of Agriculture in which it states that when Sir Frederick Phillips was last here, in his discussion with the State Department and with the Secretary of the Treasury, he indicated that he wanted to cooperate with the United States in Latin American trade problems and that this would be a step - the first official step, if the subsidy were granted, would be one in the opposite direction and apparently - I understand from our member who was present at the meeting that they would like to have some comment from you to the effect that such a step would be undesirable in view of that conference in order that they

may use that to put further obstacles in the path of Agriculture's program to impose subsidies. I think the thing had better wait until we see what happens to it, so the answer to the Secretary of State's letter can be for the moment noncommittal. I don't see why you have to take that position.

H.M.Jr: All right. Another "manana".

White: The question of a meeting of - inter-Treasury meeting will come up again. We are preparing a possible agenda. Do you want to take that up now, or at any other time?

H.M.Jr: Ask for an appointment.

White: All right. That is all.

H.M.Jr: Dan?

Bell: I have a number of things I would like to talk to you about, but there is no special hurry.

H.M.Jr: How about 3:30 this afternoon?

Bell: It doesn't have to be today, if you are tied up.

H.M.Jr: No, I would like very much to see you.

Bell: There are two things I would like to tell you now. George Harrison came in a couple of days after you left and said he wanted to tell you about the growing criticism in New York of treatment of American citizens who want to transfer their funds abroad to help out in relief, and I told him to put it down on paper and let me have it and I would see that you got it. It came in late Saturday. I just wondered if you would like to read it or shall I send it to Professor Chamberlain?

It is just the criticism that is going up about prohibiting American citizens sending their own money for relief purposes over there when they can send them to Germany and Italy and --

White: Did you note the Gallup pole, by chance, with respect to sending the foodstuffs?

Bell: Yes.

H.M.Jr: No.

White: It is a little surprising to me. It showed, if I remember correctly, something like 72 to 28 or 70 to 30 opposed to sending of foodstuffs to the invaded areas. Am I correct? I only saw a summary account of it. It is within the week.

Schwarz: Yes.

Chamber'n: It was very grave.

Schwarz: It was primarily farmers.

White: I saw the breakdown by various communities and it was surprising that the farmers likewise, despite their interests, were opposed to it.

H.M.Jr: Well, we will get it later.

Cochran: Alphand has already been here and he will be back to see you. He is the one who succeeded Leroy-Beaulieu. He arrived while you were away.

H.M.Jr: I will let you receive him.

Bell: He has been receiving him.

Chamber'n: I would like to talk to Mr. Cochran and Mr. White more about that matter, about the treatment

of the French Government funds here. They have several propositions that they want to make to us that I think - we thought it would probably involve questions of policy of considerable importance, some importance at least.

Bell: The only other thing I have, you know Nelson Rockefeller has been appointed coordinator of commercial cultural relations with the American republics and he wants a representative from each department, particularly Treasury, and they want to have a meeting at 11:00 o'clock every Tuesday. They want to make it very short so that everybody won't be bored, and there is a meeting today and he would like to have somebody from the Treasury attend it. There was one last week and I attended it, although it was just for organization purposes. Then he asked for a letter from the people that were working on South American matters and I gave him Mr. Gaston's name and Mr. Cochran's and Mr. White's names, as those who had worked on South America.

H.M.Jr: I think on that if you have got time, I think you ought to do it, Harry.

Bell: All right.

White: You might be interested to know that that Committee has made a great deal of progress in formulating a proposal for a coffee cartel for the world, which they hope to set up as a possible quota type for other forms, but they have made progress which has been much better than they had hoped for.

Bell: That is all.

H.M.Jr: Thank you all for not bothering me while I was away. I might go away again soon.

Bell: It hasn't been decent weather at all here. Everybody has been on the job.

Thompson: We have had six days of rain.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

UNCLASSIFIED
J.F.S. per MAR 20 1980 date

DATE September 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

~~CONFIDENTIAL~~

Today's transactions in registered sterling by the six reporting banks were as follows:

| | |
|---|---|
| Sold to commercial concerns | £81,000 |
| Purchased from commercial concerns | £16,000 |

The open market for sterling was very quiet and there was no variation from the initial quotation of 4.03-1/2. Transactions of the reporting banks in open market sterling were as follows:

| | |
|---|---|
| Sold to commercial concerns | £24,000 |
| Sold to foreign banks (Venezuela) | £ 5,000 |
| Total | £29,000 |
| Purchased from commercial concerns | £63,000 |

The Canadian dollar, which has had a firm tone of late, weakened today and closed at 12-1/2%.

There was further improvement in the Cuban peso. As compared with Saturday's discount of 10-5/8%, that currency was quoted at 10-1/4% today.

The other currencies closed as follows:

| | |
|---|---|
| Swiss franc | .2279 |
| Swedish krona | .2386 |
| Lira | .0505 |
| Reichsmark | .4000 |
| Mexican peso | .1996 bid, .2016 offered |

There were no gold transactions consummated by us today.

We learned that, on August 31, the Federal Reserve Bank of New York granted a three-months loan of $50,000 to the Central Reserve Bank of El Salvador. As collateral for this loan, gold valued at $57,434 was set aside from the Central Bank's earmarked account at the Federal.

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

UNCLASSIFIED
J.J. . MAR 20 '59
per date

CONFIDENTIAL



$16,500,000 from Argentina, representing four shipments of British sovereigns by the Central Bank of the Argentine Republic for its own account, disposition unknown.

2,649,000 from Curacao, shipped by the Bank of Curacao for its own account, disposition unknown.

111,000 from Mexico, shipped by the Bank of Mexico for its own account, for sale to the U. S. Assay Office.

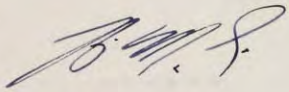
$19,260,000 Total

The Bombay gold price was equivalent to $34.14, up 4¢ from Saturday's level. The equivalent of the silver price was 45.01¢, up 1/16¢.

In London, spot silver was fixed at 23-1/2d, up 1/8d from the quotation of last Friday. Forward silver was quoted at 23-5/16d, up 3/16d from Friday's price. The dollar equivalents were 42.67¢ and 42.33¢ respectively.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made eleven purchases of silver totaling 1,270,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.



(Handed by Mr. Stopford of the British Embassy to Mr. Cochran in the Treasury at 3:30 p.m., September 3, 1940.)

O P Y

" (1) E. C. Mathis from New York informed Banco Espirito Santo that Bank of Manhattan would have received $20,000 for their account and instructed Espirito Santo to pay $8,000. to Fenner and Beane account MOTOX S.A. and $5,000. to Ritz Carlton account Mathis without mentioning Mathis' name to Bank of Manhattan. Mathis is presumably the French motor manufacturer, brother-in-law of Maurice Boyer of Banque , Basel, who was recently on the French Embassy staff at Washington.

(2) Swiss Bank Agency, New York referring to a previous communication of the Swiss Bank Corporation in Basle ask them not to mention in their reply the name of owner of Account No. 2856."

I have reason to believe that MOTOX S. A., has an account with the Swiss Bank Corporation, New York.

(Initialed) R. J. S.

- - - - - -

September 3rd, 1940.

dm

(Handed by Mr. Stopford of the British Embassy to Mr. Cochran in the Treasury at 3:30 p.m., September 3, 1940.)

"It appears that on August 16th Standard Oil Company of New Jersey New York told its subsidiary in Hamburg that it was applying to the Treasury for license to make certain patent and trade mark payments to Dutch Tax Authorities and asks whether Hamburg could arrange payments."

(s) R.J.S.

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September 3rd, 1940.

COPY

bj

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September 3rd, 1940.

C O P Y

bj

(Handed by Mr. Stopford of the British Embassy to Mr. Cochran in the Treasury at 3:30 p.m., September 3, 1940.)

"It appears that on August 16th Standard Oil Company of New Jersey New York told its subsidiary in Hamburg that it was applying to the Treasury for license to make certain patent and trade mark payments to Dutch Tax Authorities and asks whether Hamburg could arrange payments."

(s) R.J.S.

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September 3rd, 1940.

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bj

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" I learn that on August 23rd VEREINIGTE STAHLWERKE instructed Steel Union Sheet Piling Inc., to pay security fund $7,833. to Chase Bank in favour of SKANDINAVISKA BANKEN, Stockholm, and asked them to cable at the same time to SKANDINAVISKA that sum was intended for VEREINIGTE STAHLWERKE."

(s) R.J.S.

---

September 3rd, 1940.

COPY

bj

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J.F.S. MAR 20 '39
per date



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

~~CONFIDENTIAL~~

DATE September 3, 1940

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending August 31, 1940.

## Conclusions

(1) Increased industrial orders, arising in large part from the defense program, are apparently bringing to an end the recent period of business hesitation. Some improvement in the FRB index in September is suggested by recent trends of orders and activity in important industries, following a three-month period in which the FRB index (new) has held at approximately 121.

(2) New orders for steel, as reported by the U. S. Steel Corporation, have risen to the second highest figure since last October, equivalent to 125 per cent of capacity. A recent increase in heavy construction awards under the defense program will provide increased demand for structural steel and other building materials.

(3) An improvement in business confidence, doubtless due in part to the strong British resistance to air attacks as well as to increased activity in placing national defense orders, is reflected in improving tendencies in security prices and in basic commodity prices during the past two weeks.

- - - - -

## The general situation

The declining trend of industrial buying that had been apparent during July and early August has been broken by an expansion in the volume of orders for steel and textiles during the latter part of August, due largely to new buying associated with the defense program. Taken in connection with other indications of an improving business undertone, this suggests that the fall upturn in industrial production is getting under way. Following a three-month period in which the FRB index (new) has held at approximately 121, some

improvement seems likely during September. The trend of production will continue to be dependent, however, upon the rate at which actual orders are placed for defense materials.

Our weekly index of new orders (see Chart 1) rose sharply in the two weeks ended August 24, with steel orders expanding broadly and textile orders showing noticeable improvement. The rise in the combined index would have been greater except for a seasonal falling off in automobile sales, which has sharply reduced our index of orders for products other than steel and textiles. This situation will doubtless be corrected as soon as buyers begin to place heavy orders for the new model cars.

## Defense program spurs business

Increased activity in the placing of orders under the defense program has been an important factor in the recent increase in new business. As a consequence, the volume of awards for heavy construction projects has risen to the second highest figure of the year, following a considerable decline from the July peak. (See Chart 2, upper section.) In the week ended August 22, public construction awards amounted to $109 millions out of a total of $128 millions, accounted for largely by contracts for a smokeless powder plant at Radford, Va., a tank plant at Detroit, and the fleet operating base at San Pedro, Cal. In the following week, awards again declined to about normal.

Orders for structural steel (lower section of chart) have not maintained the high levels of late July. Reports from the steel trade, however, indicate current improvement in the market for structural shapes, due to heavy orders under the defense program, with mills in this division operating at capacity.

Orders for machine tools, particularly from the aircraft industry, show no slackening. The Wright Aeronautical Corporation has begun to release orders for its $8,000,000 tooling program for the new plant to be built near Cincinnati, and the Chrysler Corporation is already ordering some of the needed tools for its tank production program.

Steel activity increasing

The rate of steel activity rose to a new 1940 high during the last week of August at 91.3 per cent of capacity, not much below the previous peak of 94.4 per cent reached in the week ended December 2, 1939. The Labor Day holiday, however, has reduced the scheduled rate for the current week to 82.5 per cent.

The output of steel has already been carried practically to capacity in most districts, the important exceptions being the Pittsburgh and Youngstown districts. (See Chart 3.) The current rate of 98½ per cent for the large Chicago district is believed to be higher than ever before reached in that area. One reason for idle capacity in a few districts is a relatively low production at mills producing tin plate, which are currently operating at 55 to 60 per cent of capacity.

New orders reported by the U. S. Steel Corporation rose to 125 per cent of capacity in the week ended August 22, a sharp recovery from the recent low of 67 per cent in the week ended August 8. New orders of the Corporation have exceeded shipments during the months of May, June and July (see Chart 4, upper section) with a consequent increase in the backlog of unfilled orders. Steel production in recent months, however, has been at such a high rate that shipments could be made quite promptly, hence the present backlog of orders is not much above normal, according to our estimates (lower section of chart), and does not compare with the peaks reached in 1937 or 1939.

Business improving in leading industries

Influenced by the rise in steel production and an early fall upturn in automobile output, together with near-record electric power production, the New York Times index has recovered to a new high since mid-January. (See Chart 5, upper section.) Automobile production, as indicated in the lower section of the chart, has started up a week or two earlier than last year, and promises to climb steadily over the next several months.

Cotton mill activity has again started upward, aided by recent heavy buying of textile products. Activity in the cotton textile markets expanded again last week, with total sales of gray goods in the Worth Street district estimated at 50,000,000 yards, or two and one-half times the present weekly mill output. The week was the most active experienced in the cotton goods markets since June.

Lumber production has held in recent weeks at the high level reached in late July. The demand for lumber has continued to be sustained by a high level of residential construction, as indicated by the F. W. Dodge figures for July. (See Chart 6, upper section.) Confirming a favorable outlook for residential construction this fall, the volume of FHA mortgages selected for appraisal (dotted line on upper chart) rose noticeably in July in contrast with declines in that month in the two previous years. Weekly FHA data (lower section of chart) show further improvement in August.

The number of new homes started under FHA inspection (see Chart 7) rose to a new weekly high in July, but has declined somewhat in August, about in line with last year's seasonal trend. The FHA reports that the most substantial increases in home construction continue to be recorded in areas of expanding industrial activity, for example, in Pittsburgh, Long Island and northern New Jersey, and Hartford, Connecticut.

Business confidence shows improvement

Some recent improvement in business confidence is reflected in a gradual rise in security prices over the past two weeks, and in improving prices for a number of basic commodities. The Dow-Jones industrial stock index has gained 8 points in that period, and the Dow-Jones "40 bonds" index has reached the highest level since early May. Increased activity in awarding defense orders has not been the only factor in improving business confidence. The apparently effective British resistance to air attacks, with the near approach to unfavorable weather over the English channel lessening the possibility of an early end of the war, has tended to revive general confidence in this country.

While the rise in commodity prices has affected principally the foodstuffs group (see Chart 8), prices of raw industrial materials as a group have firmed slightly. In the case of some commodities, stronger statistical positions have contributed to the rise in prices. Pressure on wheat prices, for example, has been reduced by the movement of 83,000,000 bushels of the 1940 wheat crop into Government loan channels, and December wheat futures have gained 5 cents in two weeks. Wool prices have strengthened in response to heavy Government orders of woolen goods for Army use. Hide prices, which last Monday rose 30 points in the futures market, have been lifted by general buying to build up depleted inventories.

## Employment gains in war materials industries

Although manufacturing employment and payrolls normally decline from June to July, employment this year actually showed a slight rise, and the decline in payrolls was less than seasonal. This encouraging showing was due largely to continued expansion in the war materials industries. The extent to which employment trends in typical war materials industries moved ahead of factory employment as a whole may be seen from the following table:

Per cent change mid-June to mid-July

| | Employment | Payrolls |
|---|---|---|
| All manufacturing | +0.1 | -1.5 |
| Aircraft | +9.9 | +5.5 |
| Machine tools | +2.5 | +1.7 |
| Shipbuilding | +5.3 | +5.3 |

It is also of interest that employment and payrolls in the iron and steel industry, which have been stimulated by war materials orders, showed gains of 2.0 per cent and 0.9 per cent respectively during the same period.

## Weekly business indexes

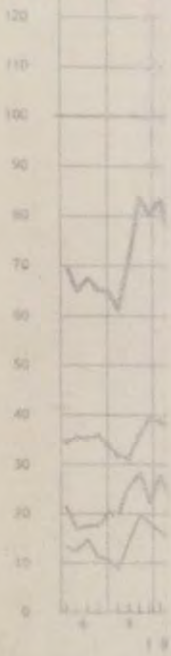
The New York Times index of business activity for the week ended August 24 advanced 0.6 to 104.3, recording its third consecutive gain.

The rise in the combined index was due principally to greater than seasonal increases in miscellaneous freight car loadings and automobile production, and a contra-seasonal rise in steel operations. Cotton mill activity also rose contra-seasonally. The principal offsetting factor was a greater than seasonal drop in electric power production from the high level of the previous week.

The Times index has gained 2.2 points in the two weeks ended August 24. By far the largest part of this advance was due to an extremely sharp gain in the index of automobile production arising from the fact that the changeover to new models was effected faster than had been seasonally anticipated. Gains were also shown in the adjusted indexes of steel ingot production, freight car loadings and cotton mill activity.

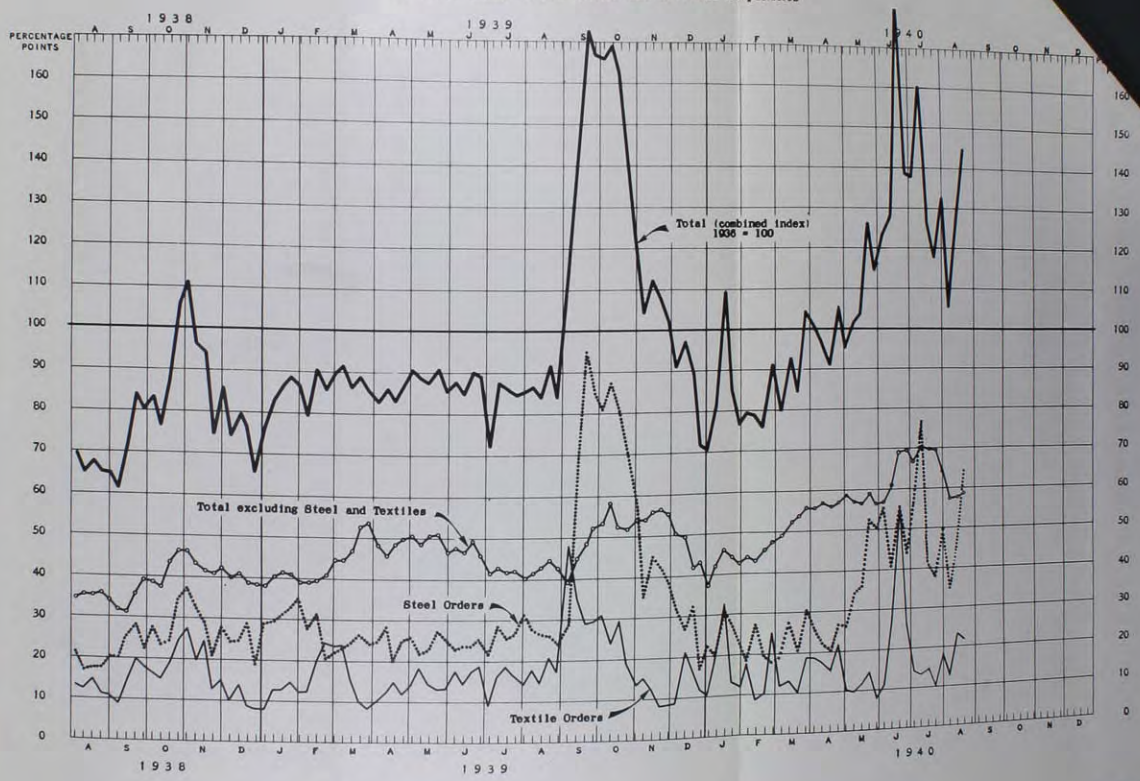
Preliminary data for the week ended August 31 reveal a further contra-seasonal gain in steel operations, which will produce a rise of around 4 points in the adjusted index of steel ingot production, and a moderately greater than seasonal rise in automobile production.

Barron's index of business activity, on the other hand, has not shown as favorable a trend as the Times index, due largely to different seasonal corrections used for automobile and steel production. During the week ended August 24, Barron's index declined 0.5 to 109.8 in the face of the moderate gain in the Times index, while over the two-week period Barron's index shows a gain of only 0.8 point.



# INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components

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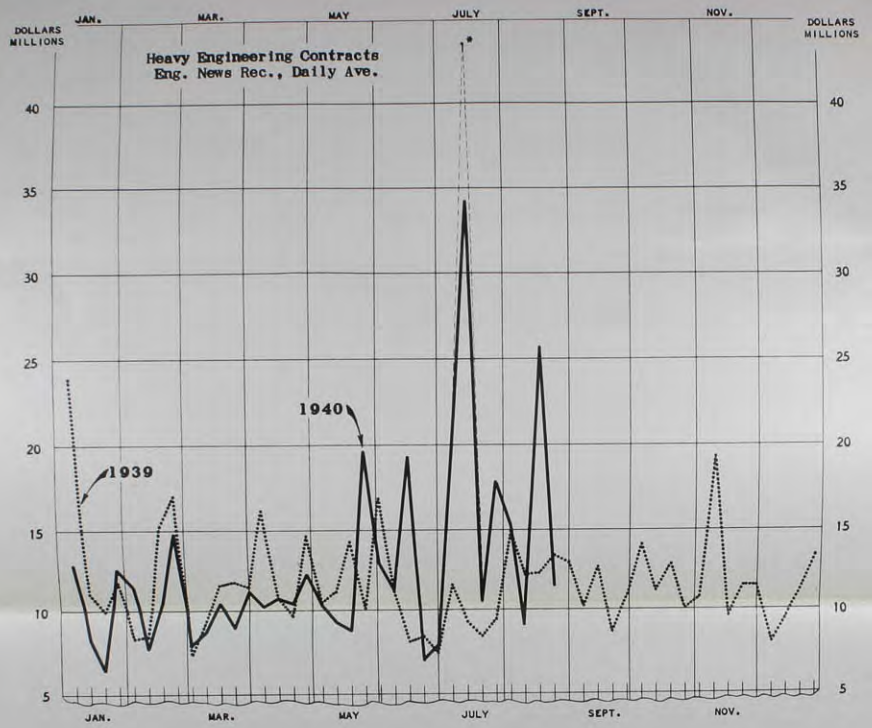
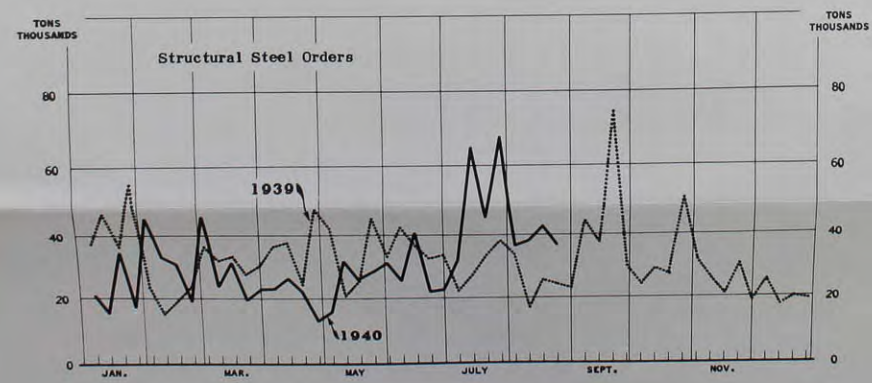
# CONSTRUCTION AND STRUCTURAL STEEL ORDERS




*INCLUDING OUTLYING POSSESSIONS OF THE U.S.

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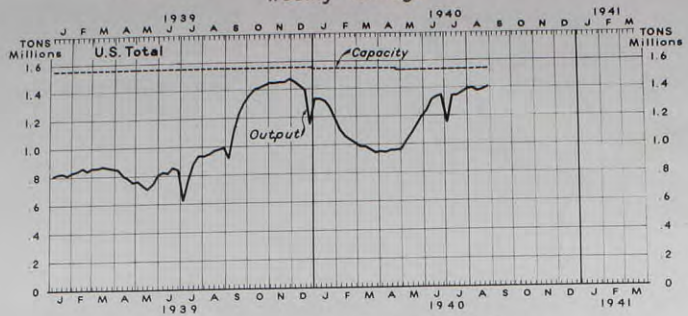
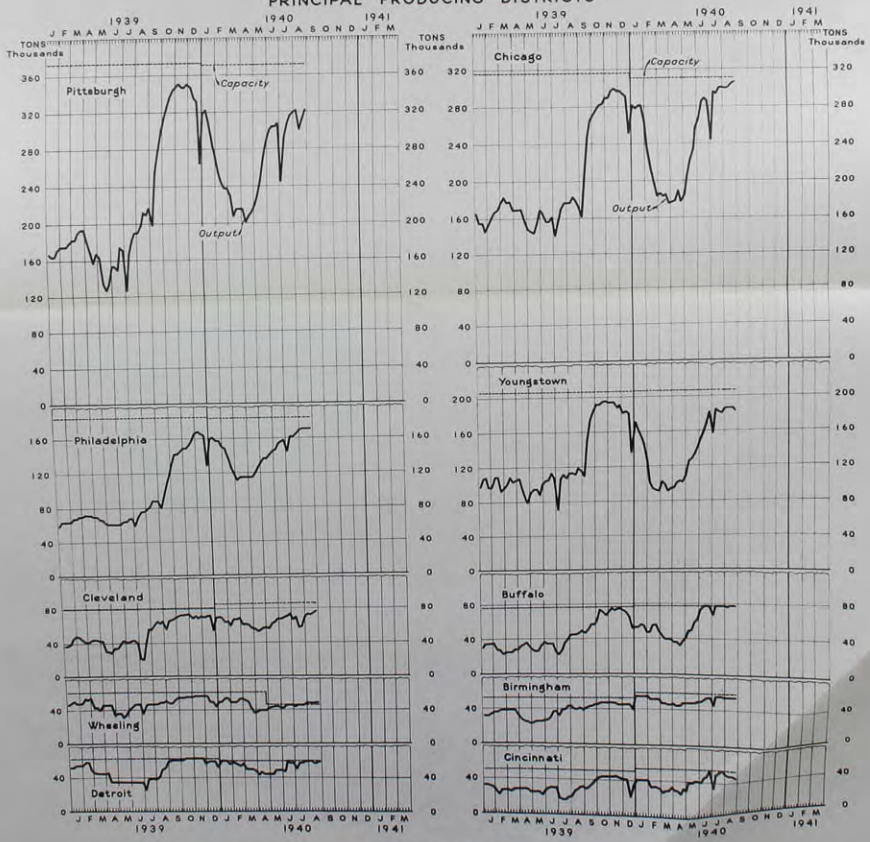
Chart 2

# STEEL OUTPUT AND RATED CAPACITY*

## Weekly Tonnage




## PRINCIPAL PRODUCING DISTRICTS




*Based on Iron Age data

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Chart 3

Chart 4
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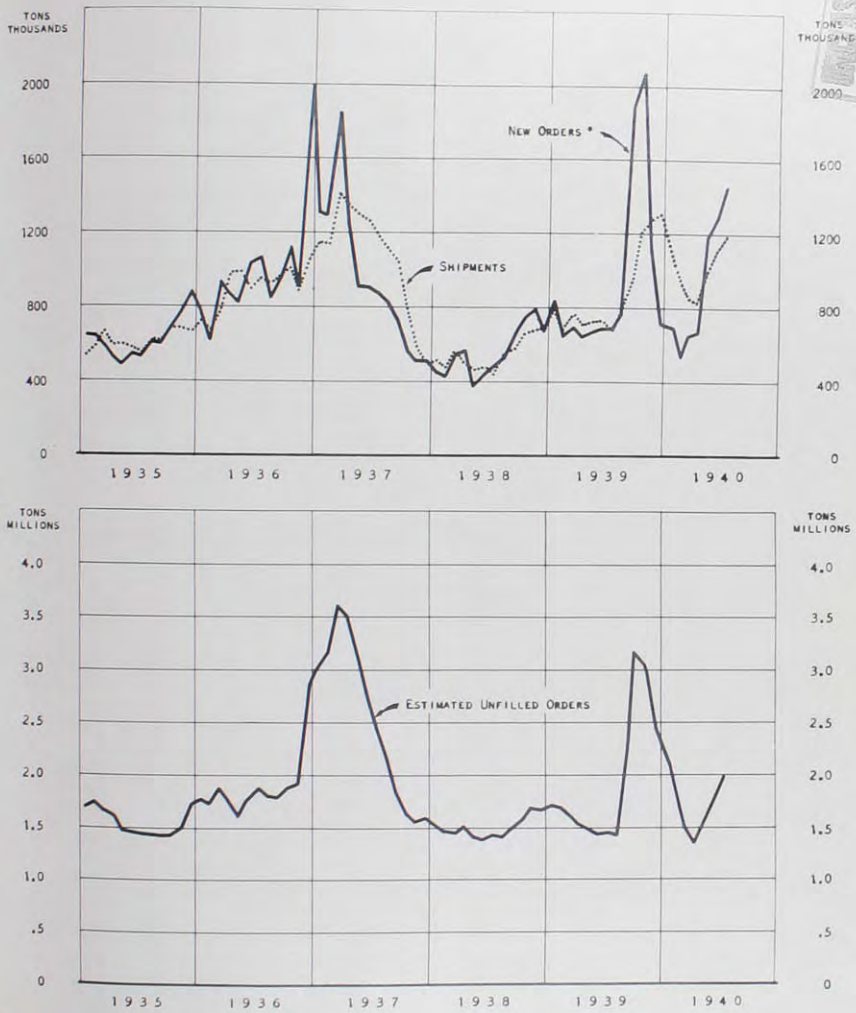
U.S. JAN 2 0 '53 J.F.S.

NEW ORDERS, SHIPMENTS AND ESTIMATED UNFILLED ORDERS
OF THE U.S. STEEL CORPORATION




*CORRECTED TO TAKE ACCOUNT OF CANCELLED ORDERS

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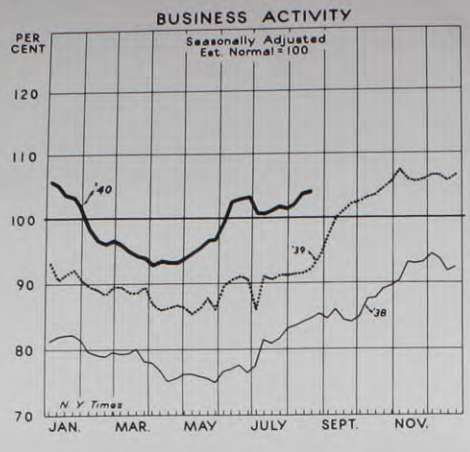
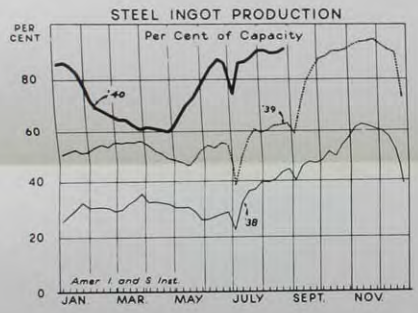
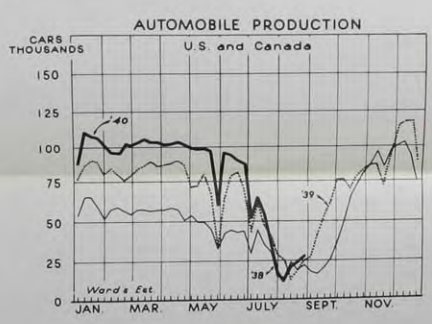
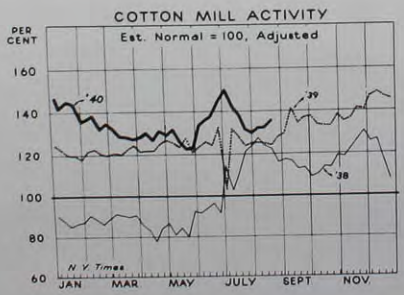
# SELECTED BUSINESS INDICES



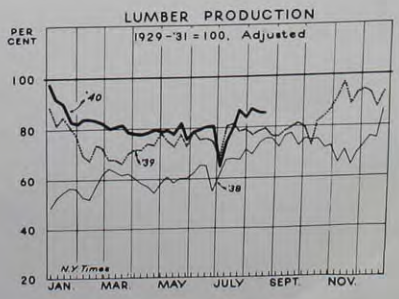






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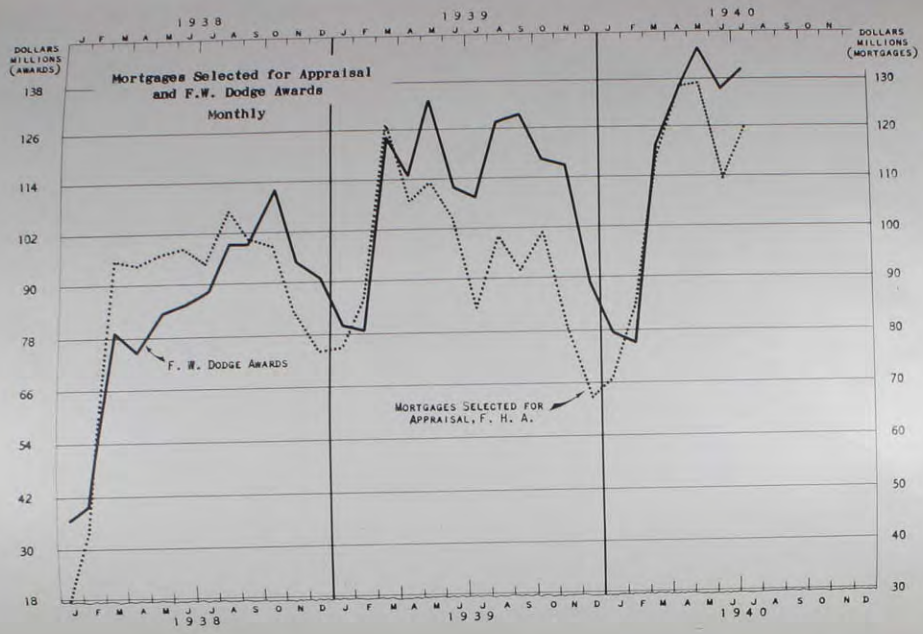
Chart 5

RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



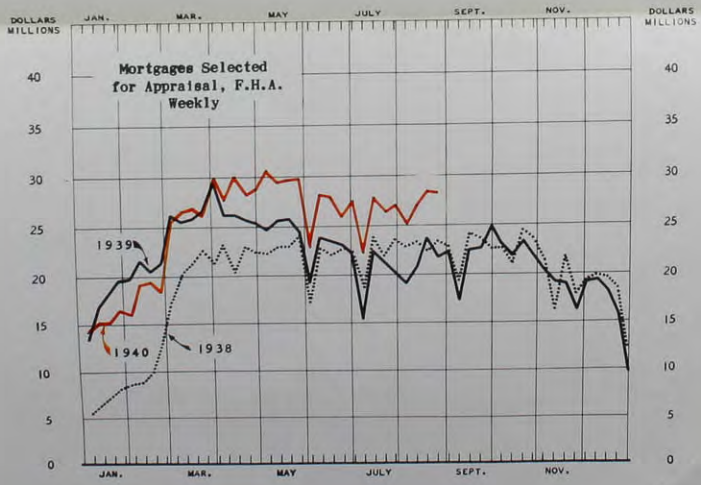




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Chart 6

# RESIDENTIAL AWARDS AND F.H.A. HOMES STARTED

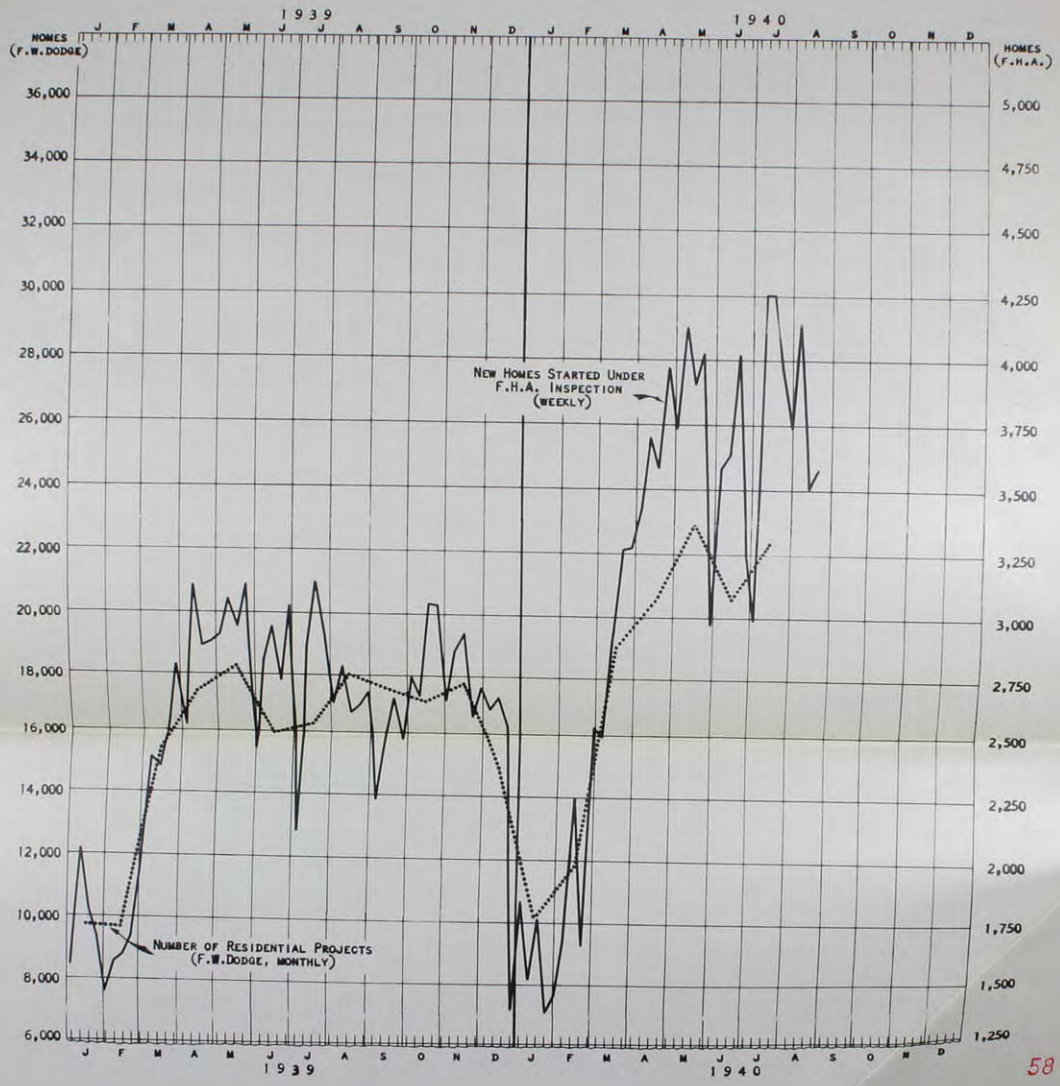


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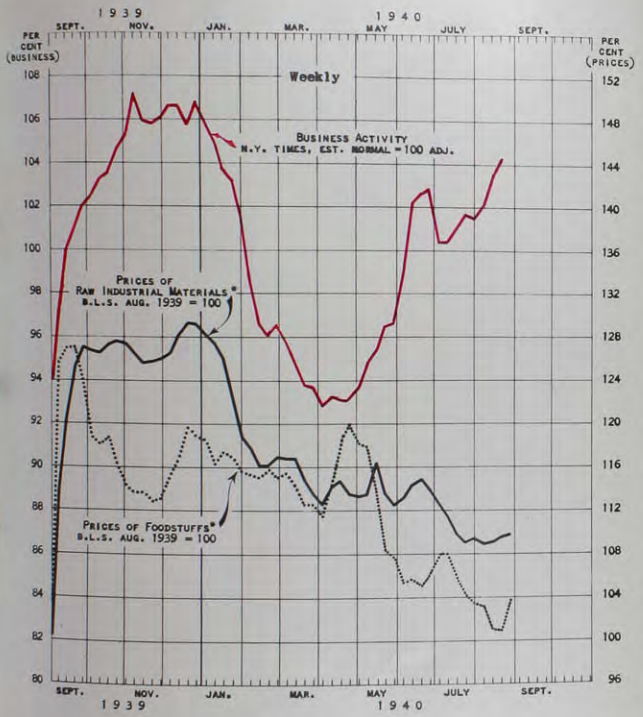
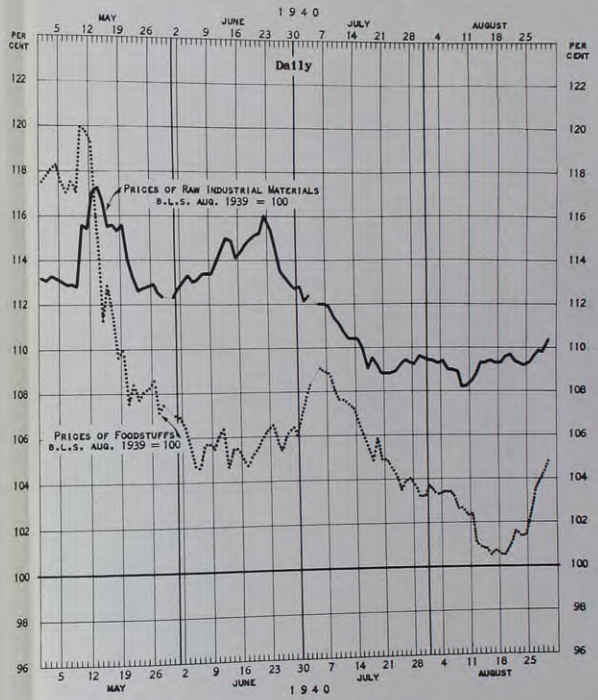
Chart 7

Chart 8

# BUSINESS ACTIVITY AND PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS




*FIVE DAY AVERAGE FOR PRICES

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C - 310 - A

COMPLIMENTS
OF
MR. H. K. HOCHSCHILD



Copy of Letter from A, Mexico City, September 3,1940.

The Congress has come together and will no doubt declare Avila Camacho President in the next few days. The Almazanistas are giving out the version that they assembled their Congress in a secret place, which of course cannot be true. Things have calmed down considerably and as far as I can see we can absolutely drop Almazan out of the picture for all practical purposes, as he hasn't got a ghost of a chance unless events should happen, which are not likely to, and which would be of such tremendous importance so as to bring his name up again.

As I said in former letters, personally I think Almazan is most afraid of his followers who want to urge him on to resistance or even revolution, which of course he knows has not the slightest chance of having results.

Avila Camacho I understand will issue in a few days a "manifiesto" which will speak about a lot of "rectifications" which have to be made against the former policy, and I understand that his manifiesto is going to be quite strong and very conservative, naturally many things to be read between the lines. As the majority of the people are not for Almazan personally, but are strictly against the policy of Cardenas, this will be sufficient to take the last wind out of Almazan's sails.

We are now politically making a very fast race towards the right, much sooner than I expected. While in my mind there was no doubt that whoever would be the next President things would be run on a much more conservative basis, or whatever you may call it if you govern for all classes and not for one alone, it now appears that even Cardenas is following the same trend making definite speeches against communism, and so on and so forth, and he is completely reversing his policy in certain things which are somewhat for show purposes. For instance, as it was clear that either new President would finish the "ejido" system (cooperatively run farms) and both candidates had promised it to the farming class, he now shortly before going out of office and in clear contradiction to all his former six years of governing, when he did everything he could for the "cooperativas" has now brought in a legislation to the effect that the land would have to be held individually. This is a complete turn around against former policies.

Naturally such change of attitude, whether out of conviction or for political reasons, has brought about a complete change in the minds of the most radical and even the less radical elements. It is amazing to see how the whole tone has changed and how all the bureaucrats and politicians are running to beat one another into the conservative camp. If, however, a wind should blow from another angle, they would all change their "convictions" again.

Economically things are not going so well which of course in Mexico does not mean that things are bad because somehow or other, in view of the flexibility of the demand for things other than the bare necessities of life, setbacks can be borne very much easier than in a more highly developed country. Therefore very little of this setback is being felt with the exception of some commercial houses.

The exchange has been moving in favor of the dollar somewhat, but the State Bank is selling to meet all demands at 5 and so far has had very little to pay out. The danger subsists that all that money which has been

repatriated from the United States and is held here in peso deposits in the banks might at a given moment get scared and ask for dollars. The amount of such increase in deposits in the last few months is calculated as somewhere between 60 to 70 million pesos, so at a given moment the Bank would have to face to lose some 15 million dollars, which would get the Bank, as far as reserves are concerned, in a rather awkward position as they only have 31 million dollars reserve as per by the President's speech on Sunday. It is interesting to know that generally we believed the Bank had considerably higher reserves. This same report also informs that during his six years the Cardenas Government has taken out of the Bank of Mexico something like 170 million pesos, overdraft and Treasury bonds, outside of the road bonds and so on which they have placed in the Bank. This is not a very good picture and would be very bad for any incoming Government if it would follow the same system. However, if the new Government will play ball with Washington, no doubt they can then land a rather big loan of say 100 million dollars, or 500 million pesos, which for that country is very little and makes the 170 millions as said above look like nothing.

As far as credit restrictions are concerned, there is a gradual loosening up of same as complaints by commercial and industrial enterprises were so strong that the Bank had to drop out some of its hardnesses. It is also worth my mentioning that apparently the President seems to be resolved to at least fix the amount of the oil indemnization and have it legally signed and delivered before he leaves office. The valuation as given by the Mexican Government is somewhere near 200 million pesos.

Taking as comparison the amount in which the Sinclair interests figure in this valuation and the amount actually paid to the Sinclair, the whole valuation looks rather "unreliable".

SOURCE

The following is a British translation, dated June 1, 1940, of "a German document ... published in Berlin in 1940."

CONTENTS

I. GENERAL PRINCIPLES.

A. Difference Between Antitank Barrages and Antitank Obstacles.

B. Importance of Destroying or Bridging Barrages and Obstacles.

C. Methods of Destruction and Extemporized Methods.

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G-2/2657-235

M.I.D., W.D.
Tentative Lessons
Bulletin No. 39
September 3, 1940

# TENTATIVE LESSONS FROM THE RECENT ACTIVE CAMPAIGN IN EUROPE

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The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and are in no sense mature studies.

## GERMAN METHODS OF CROSSING ANTITANK OBSTACLES

### SOURCE

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II. ANTITANK BARRAGES.

A. Ditches.

B. Barrages of Rails or Grids.

C. Barrages of Tetrahedrons or Antitank See-Saws.

D. Antitank Mines.

E. Traps.

I. GENERAL PRINCIPLES.

A. Difference Between Antitank Barrages and Antitank Obstacles.

"It is necessary to distinguish between antitank barrages and antitank obstacles (Panzersperren and Panzerhindernisse). Antitank barrages are artificial obstacles covered by defensive troops, such as antitank ditches, barrages of rails or grids, dragons' teeth, hedgehogs, antitank mines, traps and road blocks, and tetrahedrons. Antitank obstacles consist of woods, fields of craters, steep slopes, vineyards, streams, and marshy ground."

B. Importance of Destroying or Bridging Barrages and Obstacles.

"It is seldom possible to cross barrages and antitank obstacles without having destroyed them beforehand or without using extemporized means.

"Antitank barrages cannot be crossed by tanks in most cases except when they have been destroyed beforehand or when passages have been made through them by engineer troops or by tanks whose contribution to the battle is in this way diminished.

"In order to make passageways through antitank barrages or across obstacles, either by destroying them or by building bridges over them, it is necessary to collect the available means at the point where the principal effort will be made and to use these with surprise and rapidity.

"By making use of artificial fog, by doing the work at night, or by making feint attacks on other points, it is possible to prevent the enemy from spotting the place where the break-through is to be made. Attack and the action of other arms on a wide front disperses the defense.

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"All work in connection with the destruction of barrages and obstacles necessitates the reduction of the enemy weapons to silence. Above all, fire must be concentrated upon the enemy in position behind the barrages at the spot where the break-through is to take place."

C. Methods of Destruction and Extemporized Methods.

1. Means Available for Destruction are as follows:

a. Artillery Fire. "Good results cannot be obtained from explosive shell if the caliber does not exceed 75 mm. With heavy caliber shell the firing must be carried out with non-delay fuzes to prevent the formation of craters. It is possible to get rapid results at distances below 1,000 meters by direct fire from the tank guns and heavy mobile antiaircraft. The artillery cannot make passages in mine fields without a large expenditure of ammunition."

b. Aircraft Bombs. "The use of aircraft bombs can assist the action of the artillery, but the craters which they produce may make fresh obstacles for the tanks."

c. Special Engineer Methods. "Explosive charges are placed by detachments of sappers or with the special material provided for armored formations. The use of engineer detachments should always be followed by a tank attack. The use of special material under the protection of the tanks often allows a rapid attack by a mass of tanks."

d. Upsetting of Obstacles by Tanks. "Only very lightly constructed barrages can be overturned by tanks, and action by tanks is generally fruitless on rising ground."

2. Extemporized Methods consist of use of:

a. Fascines. "Fascines and other extemporized means are used for filling up ditches, craters, and angles formed by walls, but it is possible to carry only a very limited quantity of these upon tanks."

b. Double Track Bridges. "The track bridges are used for crossing ditches up to 5 meters wide."

c. Mats of Spars. "Mats of timber spars are used for crossing soft ground and for climbing slippery slopes, whether ice-covered or rocky."

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d. Bridging Material. "Engineer bridging material and bridge-laying tanks are principally used for crossing wide obstacles. The use of bridging material necessitates the prior establishment of a sufficiently strong bridgehead. The bridge-laying tanks of armored formations can establish crossings even under enemy fire, but it is necessary that enemy antitank weapons be neutralized."

II. ANTITANK BARRAGES.

A. Ditches.

1. General.

"Ditches are generally easily visible on aerial photographs, but often they cannot be seen from the ground except from nearby. It is possible to use as antitank traps short lengths of ditch dug behind and within the visible spaces which separate natural antitank ditches. These ditches camouflaged by a layer of earth cannot be spotted beforehand.

2. Dry Ditches.

"These are triangular antitank ditches at least 1½-2 meters deep and 2½-7 meters wide, with parapets of earth 70 cm. high on both sides or a parapet 1 meter high on the enemy side. Their rear slope is often concreted. These can be crossed:

a. "By destroying the vertical face with shells equipped with delay action fuzes and fired from the 75 mm. guns of the tanks; with explosive charges; with shell from the 210 mm. gun, or with explosive charges if the rear face is concreted.

b. "By filling them with fascines or by using bridging material.

"Wide ditches - at least 2 meters deep and 3-7 meters wide, with a steep rear slope, frequently concreted, and parapets from 30 cm. to 1 meter high on both sides - can be crossed as a rule either by destroying the rear face with short range fire, by filling them with fascines or earth, or by using bridging material.

"Antitank ditches filled with water or mud are usually 2-6 meters deep and 6-12 meters wide. These can be crossed by filling them with fascines or by building bridges."

B. Barrages of Rails or Grids.

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"These often extend for several kilometers in front of defensive organizations and are always visible from a distance."

1. Barrages of Rails.

"These are rails deeply buried in the earth and disposed at random in several rows (up to 7 rows). Barrages formed of a single row of railway lines or T girders can be crossed if tanks are driven against them one or more times at a speed of 12-15 km. an hour.

"Heavier barrages of rails or those comprising several rows must be destroyed by other methods. One can make gaps in them in the following ways:

a. "By cutting the rails with explosive shell of 75 mm. or greater caliber.

b. "By blowing up the rails with special apparatus, such as the throwing apparatus carried in tanks.

c. "By having engineer detachments blow up rails."

2. Barrages of Grids.

"These cannot be crossed until they have been destroyed with shell or explosive charges in the same manner as the barrages of rails are destroyed."

C. Barrages of Tetrahedrons or Antitank See-Saws.

"These are hollow tetrahedrons made of reinforced concrete about 1 meter high. This type of barrage can be crossed with the use of fascines or other improvised means, or several tetrahedrons can be demolished to make a gap. These tetrahedrons can be destroyed by direct fire with shells from the 75 mm. gun or by explosive charges placed against the concrete apex."

1. Heavy Tetrahedrons.

"These tetrahedrons are of reinforced concrete about one meter high. It is not possible to cross a barrage of them until the tetrahedrons have been demolished with explosive charges placed against their bases or until a bridge has been built. The bridge is constructed by filling up intervals between tetrahedrons with fascines or other improvised means and by placing upon them ramps for the tracks of the tanks."

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2. Czeck Tetrahedrons or Antitank See-Saws of Reinforced Concrete.

"These have three feet and a central pillar about 1½ meters high. A barrage of this type cannot be crossed until several tetrahedrons have been removed or destroyed by explosive charges or by direct fire with explosive shell at a maximum range of 800 meters."

3. Antitank See-Saws Made of Steel.

"If a tank comes up against these, it is raised to a height of 1.8 meters. This type of barrage can be crossed only if several see-saws have been destroyed or removed. They can be demolished either by blowing them up or by direct fire with shells of 75 mm. or nearer caliber from a maximum range of 800 meters."

D. Antitank Mines.

"One must expect to find mines, mine fields, mines sown at random, and mines fired by traction, whose object is to reinforce the defensive arrangements both in width and in depth.

"In mine fields, the mines are placed in two or three rows at 25 or 30 meter intervals. As it is not possible to identify mine fields from the air with certainty even when the mines are not buried, their existence must be discovered by means of firing single artillery shots under conditions where the fall of shot and the effects thereof can clearly be seen.

"Mine fields can be destroyed in the following way:

1. "By artillery fire which can open passages through the mine field. To make a breach of 20-25 meters wide and 100 meters deep, the following may be used: 120 rounds from the 210 mm. mortar; 400 rounds from the 150 mm. howitzer, or 400 rounds from the heavy infantry gun, which is used only in exceptional cases. It is the 210 mm. mortar which offers the best chance of success.

2. "By detachments of engineers making gaps, using well known means. They look for the mines and blow them up or mark their position by means of boards.

"Mine barrages can be crossed by tanks only after a passage at least 5 meters wide, with its sides clearly marked, has been made. Fields of craters can be crossed, and it is preferable to drive through the craters themselves if these are not

too deep."

E. Traps.

"These are ditches or pits of about 4 meters square and 2 meters deep with vertical sides carefully camouflaged. They are generally to be found behind passages winding through the obstacle. When they cannot be avoided they can be crossed in the same way as antitank ditches."

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G-2/2657-235

M.I.D., W.D.
Tentative Lessons
Bulletin No. 37
September 3, 1940.

# TENTATIVE LESSONS FROM THE RECENT ACTIVE CAMPAIGN IN EUROPE

NOTICE

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The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and are in no sense mature studies.

## INFORMAL NOTES ON ORGANIZATION AND TRAINING OF THE BRITISH CONSCRIPT FORCES

### SOURCE

The information contained in this bulletin was furnished by a high British authority. His report was dated August 2, 1940.

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"The following are a few jottings which represent some of the problems encountered when the Militia was first instituted. In reading these, one must remember that we had only about 3-1/2 months in which to prepare, and that at the same time we were doubling the Territorial Army. The first Militia intake arrived on July 15, 1939, and war was declared September 2."

(Note: The Militia were the initial conscripts called to the colors in July 1939 and September 1939 but later absorbed into the British Army, as was the Territorial Army. G-2)

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"The doubling of the Territorial Army absorbed many instructors and much equipment and made the task of organizing the Militia a great deal harder than it might have been.

"The point which dominates all others is that, before the first intake arrives, everything must be completely ready. Accommodation must be ready, as well as equipment on a training scale, together with training appliances.

"Command, administrative, and training staffs must have at least three weeks to settle down together as a running combination before the first man arrives. Once the men begin coming in, attention must be focused on them and commanders must be free to think in terms of the job in hand.

"This is important not only to ensure administrative and training efficiency, but to give the conscript a feeling of military efficiency from the word 'go'. In other words, he should be surprised with the way in which everything has been thought out and prepared for his benefit. First impressions go very deep, and if wrong, they are hard to eradicate.

"The number of instructors required was tremendous. Officers and N.C.O.'s must be organized six months before zero and given thorough schooling. This seems a long time, but quantity reduces quality, and the quality must be improved before work begins. Army schools may have to be increased to cope with the work. This requires careful thinking and preparation.

"Old soldiers are not an unqualified success because, if they have laid off for a bit, their brains become less flexible and they do not relearn as quickly as young men learn. A few are good, and these provide experience and balance.

"We decided on six months training, which would have been adequate for all except signallers and some technical personnel requiring more. In order to make Army and Militia mingle and to prevent any feeling between the two, we divided the six months in most arms into two months basic training at depots or in training centers and four months with regular units. The last two months were served in the ranks of the parent unit. Our low peace establishment and low strength made this possible.

"I think it would be better to do four months at depots and two months with regular units because in our view it takes four months to complete basic training.

"This system may not be possible, but the principle of mixing is sound. If mixing cannot be carried out, there should be close

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liaison and, if possible, cooperation between regular and conscripted troops.

"One of the biggest problems is the provision of officers and N.C.O.'s for the conscript army. We never really solved this and were in some difficulty as to how to do so. The question never actually arose, since the war broke out and Militia were absorbed into existing organizations.

"The mixing of all classes and promotion by merit from the ranks were successful. All men, Etonians and paper boys, arrived together, bumped the same troubles, and had to help each other. Mufti should not be allowed during the six months in order that class distinction will not be accentuated, and leave should be sparing.

"Our territorial military organization is geographical in its recruitment, as is the regular infantry organization. This is wrong for Militia because of the inconvenience caused if the men of one district are all called up together. In addition, it is easier to place the technician or tradesman where he is required if units are formed regardless of geography. On completing their training, men should be posted by groups to different units, and tradesmen, N.C.O.'s, etc., placed where wanted. Mobilization problems may limit the dispersion to a certain extent.

"We called up at 20 with certain exceptions. We allowed some to come early if they had a definite reason; for example, would-be doctors who wished to go right through without a break once they started studying. Others we allowed to postpone; for example, apprentices and those going to universities and wishing to graduate without the six months' break. This system would have been successful in peace if it had been allowed to work.

"In war however it is wrong. Men should be called up either in different age groups - for example, 20-year olds first then 28-year olds - or else as a cross-section through all ages, so as to get a supply of older, tougher, and more experienced men.

"As it worked out for us in war we called men from the youngest class upwards. Older men were hanging about waiting while the kids went to war, and now we have the older men coming in junior to the younger. There is no need to elaborate.

"We found that groups of school friends tried to be called up together, but we stopped any posting by such groups because we wanted to stop class distinction. As men arrived at the gates of the training centers they were allotted straight off to a platoon, and in that platoon they stayed. We tried to reorganize after a fortnight according to mental ability, but the conscripts themselves asked that

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this be stopped because it broke up their organization just as they had settled down, and incidentally it led to class distinctions again. In the end we decided to leave original platoons for all purposes except work. We picked out the slowest and the quickest for special instruction, and the majority fitted in on a general level.

"We applied psychological tests only in the very technical arms and those arms in which jobs required different types of men - for example, searchlight and antiaircraft gun units. We considered this method for all arms but decided it must be done before allotment to centers and would take too much time.

"Tradesmen were allotted to centers according to trades as far as possible so as to make use of each man's civil occupation. We had not got this quite right, but were sending the right men more or less to the Royal Army Ordnance Corps, tank organizations, etc. These were sorted by registering and calling authorities, who worked under the Ministry of Labor.

"We made a great point of treating Militiamen well from the first day so as to popularize compulsory service. This worked well. Men enjoyed their training and dreaded being returned as unfit or unsuitable. We had little crime.

"Physical training was given an important place in the curriculum and was extremely popular. Physical training instructors gave remedial treatment under medical officers' instructions. This was appreciated. Physical fitness badges promote keeness. Games are hard to fit in, but should be organized.

"The man of 20 in hard healthy work eats enormously and requires a big ration.

"Training should start easily to permit men to get fit and work up gradually during the first two or three weeks. After that, hard work is essential and is expected. Fatigues should be reduced to a minimum, but men must not be pampered. Even the young peer must take his hand at coal fatigue and scrubbing floors.

"Libraries containing military manuals as well as other books should be available. If possible, rooms should be available where men can work if they want to. Many men keep up their studies. Evening classes at local technical and other schools were well attended.

"Six months is not enough to train a signaller or a man of the tank units really well. This points to a higher establishment of regular units. The French, I believe, made all tanks units regular in the first instance.

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"The organization of the Militia field units must be ready one year after the first intake finishes its initial six months or at the end of whatever period must elapse before the conscript is called up for his annual training. We decided to give every man one year clear, more or less, after completion of training.

"The organization of the cadre is a problem. The nucleus of each unit must be senior and experienced. If there is an ample supply of such officers, warrant officers, and N.C.O.'s, well and good; but if not, they require raising and training. They should be a permanent organization, in that they must be available all the year round for mobilization and for the conduct of annual training. We thought, though we did not try it out, that our Territorial units reduced to cadre would fill the bill. This is as big a problem initially as the training of the conscript.

"The junior officers and N.C.O.'s can be found from the conscripts. To do this, we were going to select potential officers and N.C.O.'s and send them for their last two months training to schools where they would receive special training. On completion of their courses, those recommended for commissions would have got them if willing, and those recommended for promotion to N.C.O.'s would have been given that rank. This needs careful working out to ensure a correct proportion. Once the scheme is running, the permanent officers and N.C.O.'s of the Militia units would be found from Militia personnel willing to continue in the service, to come up every year for training and to respond upon mobilization. The flow is big enough to ensure that only the best are retained."

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JT

PLAIN

STOCKHOLM

Dated September 3, 1940

Rec'd 9:22 p.m.

Secretary of State,

Washington.

819, third.

Effective September 1 to August 31, 1941, all sales oil cakes and meal wheat and rye bran molasses and corn subject to licenses with allocations equivalent to 40 per cent of consumption during crop year 1938-1939. Rationing of hard bread crackers biscuits of wheat an rye and wheat and rye flour effective September third to prevent hoarding each person entitled to one and one half kilos in all up to September 7th when new quantities will be fixed. Agreement in principle between Sweden and Germany regarding deliveries of paper from Sweden to Netherlands and Belgium signed in Berlin details regarding prices method of payment and transportation to be discussed later. Coupons due September first in Stockholm of City of Copenhagen 4 per cent loan 1935 met by transfer of funds through Swedish-Danish clearing if proof furnished showing the bonds were Swedish-owned prior April 9, 1940.

Coupons

Coupons of Norwegian hydro 4 per cent loan due September first in Stockholm defaulted and issue of 18 million crowns delisted although it is understood that company possesses adequate foreign exchange but transfer not permitted by occupation authorities in Norway. Two other Norwegian coupons both Oslo 4 per cent loans 1937 total outstanding twenty-eight million five hundred thousand crowns also in default although Norway generally has active trade balance with Sweden negotiations looking to a triangular clearing Norway-Sweden-Germany for coupon payments understood to be pending. Riksbank statement August 31st all in million crowns metallic reserve 644 foreign exchange reserve 685 note circulation 1450 loans and discounts 692.

INFORM TREASURY, COMMERCE, AGRICULTURE.

STERLING

NPL

C O P Y

b.j

September 3, 1940
12:00 p.m.

H.M.Jr: Hello.

Operator: Mr. Long.

Breckinridge Long: Hello, Henry.

H.M.Jr: Hello, Breck. How are you?

L: I'm all right. I'm sorry to bother you but I've got a little matter here that has several angles to it and it concerns the permanent Central Opium Board of the Drug Supervisory Body.

H.M.Jr: Right.

L: Your Department has been interested in the operations of those things..

H.M.Jr: That's right. You have a fellow by the name of Fuller over there, haven't you?

L: We've got a fellow by the name of Fuller, yes. Now, they want to move over here to the United States and so does the I.L.O.

H.M.Jr: What's that?

L: The International Labor Office of the League and so has practically the financial and economic section and the health and opium sections of the League.

H.M.Jr: I see.

L: They went to Princeton under the private invitation of the Princeton University, the Rockefeller Foundation and the Institute for Advanced Study at Princeton.

H.M.Jr: Oh, yeah.

L: And they went there simply to study and to carry on their studies and not to be active.

H.M.Jr: Yes.

L: And they went at the private invitation of Princeton in which the Government had no part and only was advised -- I mean formally -- that they were going to do that.

H.M.Jr: Right.

L: The I.L.O. is not a member or a part of the League of Nations but it started as a part of the League of Nations and while we've been interested in it, it is one of those things that exercises a political function and is sort of a political entity.

H.M.Jr: Yeah.

L: Consequently we felt that even though Governor Winant was the head of that office that we would probably not be embarrassed if it went to Canada, so they decided eventually and they did go to Canada.

H.M.Jr: Yeah.

L: Now these other people here are also like the I.L.O., they're not actually part of the League of Nations but they're affiliated with the League, they're an organization owing their origin to the League, they exercise political functions, part of them judicial, and they want to come over here and operate -- not like the things at Princeton, just study, but they want to carry on their activities from here. Part of it is judicial in that they are apt to assess to this nation or that nation penalties if they do this and that, and it just strikes me that right now it's inappropriate for them to come here because of the political aspects of this campaign we're in. If it has some of the aspects of the League of Nations, the people of the United States are not going to distinguish between a branch of the League and the League itself and they will submit to having an office in New York to do the work with the thing advertised there - and telephones and printing documents in this country under the

name of this subsidiary of the League and this and that and the other and we may lay ourselves open to some very serious fire. Now perhaps the interests of the Government in the activities of these two parties is sufficient to over-weigh what seem to me as temporary, at least, political objections.

H.M.Jr: Well, here's how I feel. If this thing could also go to Princeton -- they're doing a beautiful job -- that narcotics organization -- hello?

L: Yeah.

H.M.Jr: ..... and certainly as far as we're concerned -- I'll put it this way -- anything to keep them going, I think, is all for the good.

L: Well, of course we want to keep them going, as a Government we're very much interested. But do you think that if we'd postpone it -- the decision until after the campaign it would be better.

H.M.Jr: I guess you're right.

L: You see, I don't like to raise the question of the League of Nations and our participation in it.

H.M.Jr: I guess you're right. I guess you're right. I'll go along with you on that.

L: We'll just tell them to forget it for awhile.

H.M.Jr: Sure. Well, you know, we've got something to study.

L: Yeah.

H.M.Jr: Experts are studying it.

L: Yeah.

H.M.Jr: How's that?

L: All right. (Laughs). O. K. You agree.

H.M.Jr: Right.

L: Thank you, Henry.

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Paraphrase of Code Radiogram
Received at the War Department
at 2:51 P.M., September 3, 1940.

London, filed 14:06, September 3, 1940.

Enemy daylight operations yesterday consisted mainly of five attacks employing about 850 airplanes in the area of East Kent and the Estuary of the Thames. Four airdromes were attacked but all are still in service. Last night there were enemy activities on a relatively small scale over a great area. Minor damages only were reported. German losses consisted of 41 airplanes confirmed, 18 probable and 32 damaged. The British lost 20 fighters and 10 pilots.

Evidences such as the movement of dive bomber units to advanced bases in France and the transfer of four long range bombardment groups from Norway to Belgium point to increased German efforts toward the end of this week to secure supremacy of the air.

The British lost 15,000 tons of shipping due to mines and submarine attacks. During the past 24 hours 51 civilians were killed and 247 injured.

An intelligent American observer who left Paris about a week ago states that the French people are now hopeful of a British victory. The German government is now evacuating the French population from coastal strips 15 to 20 kilometers deep because of the sympathy they are showing the British. The same informant states that he has first hand knowledge that the Germans are dividing all

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of France into 12 territorial areas, in each of which they are establishing five or six prison camps, each of which will have a capacity of about 25,000 men. The Germans will then concentrate the entire French Army in these camps with the exception of conscripts from agricultural regions and about 100,000 men who will be transferred to Germany as labor troops. He further states that gasoline and food are very short all over France and that the prospects for the coming winter are bad.

The Director of Military Intelligence of the British Army believes firmly that the extraordinary delays in the German attack on Britain are due to opportunist modifications of the original plan of campaign which was to contain France and strike at England. The unexpected vulnerability of France caused the Germans to modify their original plans in a manner similar to that of von Kluck around Paris in 1914. The unforseen task of occupying and pacifying France and the difficulty in reorienting the direction of the attack to the westward has caused the present delay in resuming the original plan of campaign.

LEE.

Distribution:
General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

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Signature- RHDR

September 3, 1940
10:30 a.m.

RE ALLIED PURCHASING PROGRAM

Present: Mr. Purvis
Mr. Ballantyne
Mr. Dewar
Mr. Young
Mr. Buckley

H.M.Jr: I have from now until eleven. If you will tell me the things which are bothering you the most, we will list them.

Purvis: Well, I hesitate --

H.M.Jr: If you would just run through them.

Purvis: The most important of all, without question, is the achievement of a pattern on this financing operation over the tank end, which would enable us to develop the maximum of complementary programs with the Defense Advisory Commission. We, as you know, failed on the Merlin thing, I think perhaps through leaving it in Mr. Knudsen's hands entirely, and I think I ran across a situation which we know about. Actually I feel that from now on our experiences show that the only hope of getting to a chance of conclusion at all successfully is to have a small team on both sides of the same individuals with perhaps an air man one time, a tank man one time, and so on from our end, and the Army and Navy as it may be have their men sitting in, but always the same individuals so that we get to a real conclusion and make it stick. I feel very conscious of the fact that the minute any of us leave the meeting which are interested in the broad policy, the tug of war on the part of our men, perhaps, who have purely a purchasing outlook down the line - we noticed it in the Colt machine guns the other day, or perhaps,

one of the services here, get away from the very thing we are trying to do, and I do think the establishment of a sort of team on both sides will enable us to get somewhere.

The particular thing we are anxious about at the moment is the question of the tank financing, insofar as the Continental engines are concerned. We are terribly anxious --

H.M.Jr: May I ask a couple of questions, because I am not up to date. As I understand it, our Government has a contract with Chrysler for a tank.

Young: Yes, sir.

H.M.Jr: Do you know what kind of a tank that is?

Purvis: That is a light tank.

Buckley: Medium tank.

Dewar: It is the same one.

Young: Without the engines.

Dewar: No engines are included.

H.M.Jr: How do you describe this tank?

Dewar: N-3.

H.M.Jr: And how many pounds?

Dewar: 55,000 pounds.

H.M.Jr: This is to be built by Chrysler?

Dewar: Yes.

H.M.Jr: And you are going to buy some of these tanks from Chrysler?

Dewar: Not from Chrysler, no.

H.M.Jr: Who are you buying from?

Dewar: We are proposing to buy from six different firms, balanced within --

H.M.Jr: A group?

Dewar: Yes, from a group of three in the East and three in the Middlewest.

Purvis: All but the assembling.

Young: The Chrysler deal is quite outside the complementary program on tanks.

H.M.Jr: Why?

Young: That order has been placed for some time with Chrysler.

H.M.Jr: You don't know how many tanks?

Young: It is a relatively small number.

Dewar: It is five per day for Chrysler, and the Army have placed orders - I should say I only know it indirectly - for eleven hundred with a further option on another eleven hundred.

H.M.Jr: And they have gotten started?

Dewar: The Chrysler deal is all signed and sealed with the Army.

Purvis: That has been for some little time. This other deal is a bigger deal.

H.M.Jr: How many?

Purvis: Three thousand for us, including the right to modify it to the first 1,500, in type, in the light of experience, and what is it, a thousand minimum and two thousand maximum for the Army they stated the other day?

H.M.Jr: Let me get this straight. The Army has on contract with Chrysler now for the same tank how many?

Young: Eleven hundred. I am not sure of that figure.

Dewar: It is approximately that figure.

H.M.Jr: And the Army needs how many more tanks besides?

Young: They will place a firm order for a thousand with an option for another thousand.

H.M.Jr: And you want how many?

Dewar: Three thousand. We want to order 1,500 first and 3,000 if we can get some modifications after the first 1,500, depending on experience.

Purvis: Which would not affect the engine, would it?

Dewar: No.

Purvis: And therefore we are up against the engine deal, which is simple. It is the engines for 3,000 tanks on our part.

H.M.Jr: Just a minute. I have got an idea on this thing. Chrysler can make five a day in eight hours?

Dewar: Yes.

H.M.Jr: Well, they could make ten a day, I suppose --

Dewar: I think ten is the War Department's idea of their maximum.

H.M.Jr: Well, that financing deal, as I understand it, was taken care of and that is finished.

Young: Chrysler, yes, except for the engines.

H.M.Jr: Except for the engines. The Army has placed its orders for the engines?

Young: No.

Buckley: They are going to use these engines.

Young: The engines for the Chrysler tanks will come out of a joint program.

H.M.Jr: And that is to be placed with the Continental?

Purvis: Yes.

H.M.Jr: And that is where you are bogged down?

Purvis: We are bogged down, purely, I think, on the question that the RFC at the last minute suddenly said that we would put our security - now, the object, of course, of the whole thing was to roll it over a longer period and if we put up the security, we have defeated the main object. All we have got is a contingent interest in possible depreciation.

H.M.Jr: I have a fairly good understanding of this. Buckley wrote two letters on this thing. There is nothing since you wrote me this letter, is there?

Buckley: No.

H.M.Jr: Have you seen this?

Young: Yes.

H.M.Jr: It is a good letter. How many engines - well, you want one engine for each tank, I suppose, plus spares.

Purvis: It means 3,500 engines for us, does it not?

Dewar: Yes.

H.M.Jr: What I have in mind, and I need 24 hours to 36 hours on this thing, but I have already started the thing - we hold, and Judge Patterson has informed me - and I want this kept in this room - that Chrysler can make tanks for you. Now, if that is so, what I would like to get - I am going to have him over for lunch tomorrow - let's say that you wanted another - to have them turn out ten, so it would be one and one for

you and that whatever the amount of money that the Army has advanced for Chrysler, that you would pay back half of it as you got each tank and that would certainly be most highly satisfactory to you.

Purvis: We can pay as their things are delivered, that is our object.

H.M.Jr: But that would be entirely satisfactory to you.

Purvis: Well now, as I understand it from your detail - I don't know how far you are with your negotiations.

Dewar: No, that is all right as far as I am concerned. It would tie in. The problem is the delivery date.

Young: Yes.

H.M.Jr: All right. We would double the order for Chrysler and then I would say to the Army, "Now, please go ahead and order another five a day and the English will take another five a day, but you make all the arrangements and when you are all through, the English will come in and they will take half of the orders on the same basis," but let's let the Army do it and you fellows sit back until it is finished. I just got through talking to Knudsen, and I told him what I had in mind, and he said, "Well, I have got an idea, and I will see you tonight," and I said, no, I couldn't, I was busy, but I could see him at eight tomorrow morning. He has got an idea that he thinks he can get around this thing, so if you would give me a day or two to play with this thing, I either can or can't; and if I can't I will say, "Gentlemen, I am sorry," and the most you will lose is two days, but it is certainly worth it. Now, if that will work, then you people would just sit back and wait until either the Army or Navy, doing the splendid work that has been done on getting

them the technical information and getting the model that you want - but I am just thinking about the financing end of it. I am firmly convinced we can go ahead and not have so damned many people messing into this thing and either the Army or Navy will sign up for what they want, knowing all the time that you want half the product when the contract is finished. It sounds too simple to be true. You will simply come along and say, "Well, we will take half the product," and repay the cost added to each machine that you receive.

Purvis: Do you think we can get a priority when the time comes, is that what it means?

H.M.Jr: You get half the production.

Purvis: I mean a priority on half the production. Would it come down to the case that we would get a priority or would we know in advance --

H.M.Jr: If they can turn out ten a day, you would get five and the Army would get five. I don't know whether you would call that priority or not.

Purvis: We would buy direct from the manufacturer?

H.M.Jr: You would buy direct from the manufacturer and in some cases it might be if they were turning out ten, you might get four or five or six or seven, depending upon how many the Army wants, but the Army would say first how much they wanted of that, knowing all the time what the total number is that you want, and instead of your negotiating with five or six different manufacturers, let the Army go ahead, sign the manufacturer up, knowing all the time how many you want and what you want.

Dewar: We want the capacity of about 20 a day. If we could have the others in addition, that would be fine.

H.M.Jr: Well, I have got one chance in three of putting this across.

Purvis: You want to establish a source which would be better than the one we have been trying to establish.

H.M.Jr: Much better. The Army doesn't come in on this at all. It would be the machine guns and everything, the whole works.

What do you think, Phil? Do I make myself plain?

Young: Yes. I haven't got through it yet.

H.M.Jr: Well, ask me and then maybe you will bring out some defects.

Young: The RFC bothers me a little bit. You said it does not come into the picture. If you run into any difficulties there whereby they will have to finance the plant expansion, the Army has to certify and the Defense Commission has to certify that they need that production capacity created in this country and whether the War Department will do that and the Defense will do that, I don't know, because the total daily production capacity of the British and America combined is pretty far in excess of what the Army wants itself today.

H.M.Jr: You mean out of this money that they have for this purpose?

Young: Yes. It is a question of --

H.M.Jr: On a one shift basis, the Army testifies that they need five tanks a day. Well, that leaves Chrysler saying on a two or three shift basis they can turn out ten or twelve.

Purvis: So far, the Defense Advisory Commission has been willing to certify 20, or rather the Army to the Defense Advisory Commission, would be willing to certify 20 a day.

Young: Yes.

Buckley: That was the Defense Commission, I believe.

Purvis: Yes. They couldn't have done it, had it not been certified. But 20 a day has been certified as being necessary for the United States defense.

Buckley: I don't believe so, Mr. Purvis. They have certified that on a standard program it is desirable to have 20 a day, but that is not for the Defense Commission. The Army has been very insistent on not becoming obligated for capital investments in excess of what they really believe they need.

H.M.Jr: Well, you see, here is what I have found out. Here is Mr. Patterson, Assistant Secretary of War, who says, "I don't know a thing about it." He hasn't been consulted.

Purvis: I think perhaps I should have gone along to see Mr. Stimson.

H.M.Jr: I mean these people haven't got the authority. I told him, "Does this thing appeal to you?" and evidently it does, and I am bringing in --

Purvis: You are bringing in the policy end at the top.

H.M.Jr: And I may not be able to get away with it, but I will try it, and I will either do it by Thursday night or I won't, but I mean this thing has never got to Patterson. If it hasn't got to Patterson, it hasn't got to Stimson. If I am wrong, say so.

Young: I don't know.

H.M.Jr: Patterson said with the exception of the memorandum which we sent him - we have given him a legal memorandum which I would like these gentlemen to see.

Young: He gave it back to me. He wouldn't keep it. He read it very carefully while I was there,

and I suggested that he keep it and he wouldn't.

H.M.Jr: Let Mr. Purvis read it. We hold in that memorandum, using this Chrysler deal as a formula, that you people could come along and get part of the product and the thing - that is the formula I would like to put across. If we can do that for one thing, we can do it for everything.

Purvis: That is the vital point for us. We are so anxious to get a pattern and stop these things getting away from us because the men in the Council seem to pull apart.

H.M.Jr: I mentioned this over the telephone to Knudsen and he said, "Well, aren't you afraid the Government will end up owning too many planes?" I said,"Mr. Knudsen, if the RFC does it and they have it and they have a deficit, who do they come to? They come to the Treasury anyway," and so he said,"Well, I have got one I think is as good."

Purvis: At least we seem to have stimulated a lot of thought.

H.M.Jr: I appreciate that you men have done a tremendous amount of work on the thing, and I am coming in --

Purvis: It is coming into higher policy.

H.M.Jr: I may be a complete washout on this, but I would like to try it. It would make life so much simpler for everybody.

Purvis: Oh yes, we had visions of --

H.M.Jr: I mean, instead of all this that is going on - Young had, what was it, 50 or 60 people.

Young: We had a minor convention.

Purvis: The machine gun is very important, too.